

corresponding set of parameters when implementing the required property registration reforms. Specifically, the Government must:

- **Reduce the amount of time required to register a property.** The Government can achieve this reform by completing consolidation of regional offices, train supervisors on supervisory skills including performance management, provide continuous training to employees to increase productivity, conducting performance analyses to reallocate support staff (e.g. technicians) to maximize registrars' processing capabilities, and eliminating the backlog of outstanding property registrations.
- **Eliminate the backlog of outstanding property registrations.** The Government can achieve this reform by promoting legislation such as was done in 2010 with Act 216, known as Act to Accelerate the Property Register. The sequential registration of documents is necessary to maintain updated property records that guarantee ownership. The Oversight Board recommends that legislation be enacted that would consider as registered all documents presented before December 31, 2020, as long as they have a tract record and are in the correct estate.
- **Modify Karibe**, the digital platform used by the Register. The Government can achieve this reform by taking steps to minimize data entry errors, including establishing checklists of documents to be submitted to assure completeness and prevent errors that require notification of cases, adding the features to analyze data entered to validate correctness and completeness, adding help tools to guide users through the submittal process and providing training to Public Notaries and their staff on system usage.
- **Create a taskforce composed of Public Notaries, and DOJ-PR to develop recommendations and set procedures and legal requirements to register non-registered property on the Island.** The current process to register properties that have never been registered requires that all transactions go through the judicial system. It is estimated that there are 90,000 informal properties in Puerto Rico that would have to go through that process, potentially creating a huge backlog in the judicial system. The taskforce should develop recommendations on a process based on the experiences of what other countries have done to tackle informal property registration to register these properties without going through the courts.
- **Create a uniform parcel registry that comprehensively records property ownership and rights across the Island** (funded by a \$50 million CDBG-DR grant for this purpose). The Government can achieve this reform by prioritizing the mapping of the entire Island, including only basic information for each property, and limiting participation to stakeholders with registration data, establishing an administrative and technical protocol for continuously updating the parcel registry to reflect legal changes (e.g., new ownership), and creating a legal protocol to incorporate informal housing stock lacking legally-determined boundaries, deeds, or titles into the uniform parcel registry. According to the Department of Housing CDBG-DR Office Action Plan (V), the GeoFrame Program will aggregate, integrate, and actualize all cadastral data (addresses, roads, parcels, structures, ownership, occupancy, land use, etc.) in Puerto Rico using a centralized regulated system. The program guidelines were approved in September 2020 and the program launched in October 2020 with a Request for Proposal (RFP) for a program manager.
- **Launch a Geoportal that provides an interactive geospatial presentation of data populated within the uniform parcel registry** (funded by the same \$50 million CDBG-DR grant mentioned above). The Government can achieve this reform by contracting surveyors and GIS service providers to develop a digital portal of the Island, and prioritizing the overlay of parcel and ID, ownership, land use, and valuation data¹⁴² The RFP to select the GIS provider was published on September 30, 2020. The Government Procurement Office is in the process of selecting the service provider.

¹⁴² After satisfying HUD requirements, the Government could populate additional data (e.g., utility, school population, crime) to meet the Island's legal and economic needs.

9.3.2 Reform targets and indicators

Successful property registration reforms will allow Puerto Rico (ranked 161st in the *Doing Business* registering property indicator) to compete with the top-ranked Latin American and Caribbean economy in this indicator (ranked 95th) by reducing the time and number of procedures required to register property by FY2024. It will also allow Puerto Rico to demonstrate to the U.S. Department of Housing and Urban Development (HUD) how ongoing efforts to develop a uniform parcel registry and GIS map will assist HUD in verifying legal and physical addresses associated with the use of CDBG-MIT funds.

The Oversight Board will also track the following indicators to ensure that the Government implements property registration reforms:

- Average number of days to register property
- Number of procedures required to register property
- Number of backlogged property registration applications

To successfully implement property registration reform, the Government must accomplish the following action items by their respective deadlines:

EXHIBIT 52: IMPORTANT ACTIONS FOR IMPLEMENTATION OF REQUIRED PROPERTY REGISTRATION REFORM

	Action item	Owner	Deadline
To be completed during FY2022	• Work with Legislature to pass law to register all documents in backlog up to 12/31/20 that have a tract record (missing a partial payment, a small correction or a Gov required document)	• DoJ / PR / Legislature	• July 31, 2021
	• Develop regulation and plan for implementation of law	• DoJ / PR	• July 31, 2021
	• Establish employee performance quotas, include in performance review process and publish weekly, monthly and YTD	• DoJ / PR	• July 31, 2021
	• Create internal and external users' team as advisors (Civil Law Notaries) and government agencies with vested interest in the process: Property Registry, OGPE & CRIM	• DoJ / PR / Working Groups	• July 31, 2021
	• Begin implementing strategy to reduce property registration processing times	• DoJ / PR	• August 31, 2021
	• Publish dashboards with all employees, teams and Registry Sections performance, internally and in KARIBE	• DoJ / PR / Working Groups	• August 31, 2021
	• Develop RFP to Hire System Designer for KARIBE	• DoJ / PR / PRITS	• August 31, 2021
	• Issue request for proposal for third-party surveyors and GSI providers to begin developing digital map of the Island (funded by \$50 million CDBG-DR) grant for this purpose.	• PRDOH	• September 30, 2021
	• Hire System Designer (Front End KARIBE)	• DoJ / PR / PRITS	• October 31, 2021
	• Work legislation to implement fee for cases presented physically at Registry Offices.	• DoJ / PR / Legislature	• November 30, 2021
	• Identify all changes to be performed to KARIBE to improve presentation, increase user friendliness and automate certain tasks performed by technicians and prepare RFP for system developer.	• DoJ / PR	• December 31, 2021
	• Hire system developer and start changes to KARIBE.	• DoJ / PR / PRITS	• February 28, 2022
	• Establish compensation plan for technicians that exceed goals with new funds collected.	• DoJ / PR	• February 28, 2022
	• Define administrative protocol to continuously update uniform parcel registry in response to legal changes (e.g. ownership changes).	• Working Group	• April 31, 2022
	• Finalize merger of CRIM, DOJ-PR, and JP property registries into uniform parcel registry	• Third Parties	• May 30, 2022

	Action item	Owner	Timeline
Timeframe FY2022	• Introduce technical mechanisms to continuously update uniform parcel registry and GIS map in response to legal changes (e.g. ownership changes).	• Third Parties	• June 15, 2022
	• Incorporate CRIM geographic area validation.	• DoJ / PR	• June 30, 2022
	• Complete consolidation of 12 Regional Offices into 8 with limited services	• DoJ / PR	• June 30, 2022
FY2023	• Complete all document registration as required with the new law.	• DoJ / PR	• July 31, 2022
	• Complete changes in KARIBE.	• DoJ / PR / Working Groups	• September 31, 2022
	• Issue request for proposal for third-party firm to merge CRIM, DOJ-PR, JP property registries into uniform parcel registry.	• PRDOH	• November 15, 2022
	• Design protocol to incorporate informal housing stock when identified into uniform parcel registry.	• PRDOH	• January 31, 2023
	• Design campaign to map unregistered properties or those with outdated ownership and share with oversight Board.	• PRDOH	• February 15, 2023
FY2024 and Beyond	• Develop an expedited ownership declaration process. Create preregistration process to comply with Federal Government requirements to assure all properties in Puerto Rico have some type of evidence of ownership.	• CDGB-DR / JP / CRIM / PRDOH	• July 31, 2023
	• Conclude mapping campaign.	• DoJ / PR	• March 31, 2024
	• Finalize upload of data from mapping campaign into uniform parcel registry and GIS map.	• Working Group	• June 30, 2024
	• Finalize uniform parcel registry that maps all ownership and rights across the island.	• CDGB-DR / JP / CRIM / PRDOH	• September 15, 2024
	• Finalize GIS map that include parcels, property IDs, property ownership, land use, and property value data.	• CDGB-DR / JP / CRIM / PRDOH	• December 31, 2024

9.4 Simplify paying taxes to spur economic activity

To spur economic activity, the Government must implement reforms to meaningfully simplify the process of paying taxes. The Oversight Board acknowledges Hacienda's progress in digitizing and increasing the number of tax filings made via the Internal Revenue Unified System (SURI, by its Spanish acronym). During FY2020 and FY2021 Hacienda automated corporate income tax filing and the submittal of documents for audits and error correction. In addition, they established an appointment system on their webpage to eliminate the need for taxpayers to visit the taxpayer's services office and wait in line for post filing error resolution. Hacienda is also in the process of digitizing SUT payments in SURI. These efforts have drastically reduced the burden of tax filings and has helped filers reduce the time required to complete certain filings and payments (e.g., form 480, SUT, corporate income taxes) by digitizing and centralizing those processes in one place. However, municipal and property tax filings and payments remain time-consuming and complex. Post-filing audit procedures are still particularly time-consuming and challenging to resolve, often involving multiple in-person visits to Hacienda¹⁴³ or require filers to interface with multiple revenue agencies and mediums to comply with their tax obligation.

The Government should prioritize the reform of the tax administration process and should appoint a tax administration reform working group composed of public and private sector members including CPAs, CRIM, and the Municipalities.

9.4.1 Reform design parameters

The 2021 Fiscal Plan requires the Government to adhere to a set of parameters when implementing the required tax administration reforms. Specifically, the Government must:

- **Reduce the time required to pay taxes.** The Government can implement this reform by digitizing analog tax filings (e.g., municipal and property taxes), consolidating several tax filings (unemployment, workers compensation, disability and driver's insurance), and improve post-filing error-resolution processes (e.g., by communicating to users the new

¹⁴³ Most technicians only have the authority to resolve (and frequently escalate to their superiors) errors worth \$25,000 or less, with taxpayers needing multiple follow-up visits to speak to higher-level officials.

capability for secure uploads for digital document) into SURI, as well as by exploring opportunities to reduce the number of required tax payments (e.g., less frequent payments for smaller amounts)

- **Accelerate the processing of tax filings and timeliness of audit completion.** The Government can implement this reform by conducting an operational needs assessment to support the reallocation of underutilized personnel to critical functions (e.g., error-resolution, audits), and identifying and implementing operational efficiencies within the audit process (e.g., by identifying bottlenecks, duplicative work, and workload scheduling)
- **Create a working group to identify and prioritize efficiency-minded regulatory changes that can be incorporated into future SURI releases and to develop a plan to reform the tax administration process**

9.4.2 Reform targets and indicators

Successful tax administration reforms will allow Puerto Rico (ranked 163rd in the *Doing Business* paying taxes indicator) to compete with the top-ranked Latin American and Caribbean economies in this indicator (ranked 99th) by reducing the time and number of filings that companies must complete to pay taxes by FY2023:

The Oversight Board will also track the following indicators to ensure that the Government implements tax administration reforms:

- Average number of mandatory tax payments for corporations
- Number of days for claims resolution
- *Doing Business* post-filing index score

To successfully implement the required tax administration reform, the Government should accomplish the following action items by their respective deadlines:

EXHIBIT 53: IMPORTANT ACTIONS FOR IMPLEMENTATION OF REQUIRED TAX ADMINISTRATION REFORM

	Action item	Owner	Deadline
To be completed in FY2022	• Establish a Tax Administration reform working group with Private Sector tax professionals, CRIM, Hacienda, Governor's Priority Projects Advisor and FOMB	• Hacienda/AFFAF	• July 31, 2021
	• Start implementation of Municipal Sale Tax Payments in SURI (COFIM)	• Hacienda/AFFAF	• July 31, 2021
	• Discuss tax reform strategy, projected costs, and necessary administrative and legislative changes with Oversight Board.	• Reform Team	• July 31, 2021
	• Assess basic operational needs across all departments to facilitate allocation of personnel to processing filings, error resolution and audits.	• Hacienda	• October 31, 2021
	• Train personnel to be relocated to processing filings, error resolution and audits.	• Hacienda	• December 31, 2021
	• Design an implementation plan to maximize the effectiveness of tax administration reforms	• Reform Team	• December 31, 2021
	• Reallocate trained personnel to ease the processing filing, error resolution and audits.	• Hacienda	• January 31, 2022
	• Start implementation of the Tax Credit Management Module ("Business Credit Manager")	• Hacienda/AFFAF	• January 31, 2022
	• Finalize update to the latest version of SURI platform (Version 12) to improve user experience with a communication program for users	• Hacienda	• February 28, 2022
To be completed in FY2023 and beyond	• Finalize update to SURI platform to include Municipal Sale Tax Payments (COFIM)	• Hacienda	• June 30, 2022
	• Finalize the Tax Credit Management Module ("Business Credit Manager")	• Hacienda	• September 31, 2022
	• Finalize necessary administrative and legislative changes required to implement tax administration reforms for tax year 2022	• Hacienda / Legislature	• December 31, 2022
	• Finalize technical upgrades to Hacienda's digital platforms for reform implementation	• Hacienda	• March 31, 2023

9.5 Reduce occupational licensing to facilitate labor force participation

Current occupational licensing requirements complicate certain workers' entry into the formal workforce and expose applicants to lengthy wait times and potential costs. Occupational licensing is meant to ensure high quality services while protecting public safety. However, overregulation in this area creates a strong disincentive for certain workers to move into the formal labor force.¹⁴⁴ To promote labor force participation and create incentives for skilled workers to remain on-Island, the Government should, as appropriate, streamline, eliminate, or harmonize occupational licensing requirements with those on the U.S. mainland. By aligning licensing requirements with other jurisdictions, professionals could consider Puerto Rico as an attractive relocation destination. Additionally, the Government should leverage established best practices when creating new licenses to produce less burdensome regulations and reduce the need for future time-intensive legislative overhauls.

The Government has not enacted any professional licensing reforms to date. More than 185 professions¹⁴⁵ are licensed by autonomous boards and supervised by the Department of Health (DOH), the Department of State (DOS), the Puerto Rico Tourism Company (PRTC), and the Sports and Recreation Department (DRD, by its Spanish acronym). Workers must meet application requirements set by licensing boards. Applications are then processed by their respective boards and issued by DOH, DOS, PRTC, and DRD. Processing times vary substantially.¹⁴⁶

9.5.1 Reform design parameters

The 2021 Fiscal Plan recommends that the Government adhere to a set of parameters when implementing occupational licensing reforms. Specifically, the Government should review requirements to identify licenses for simplification, consolidation, or elimination, and assess the basis for legislating a mandated reduction in occupational licensing regulations, as is done in other U.S. jurisdictions.¹⁴⁷ The Government should also join U.S. mainland compacts that recognize licenses obtained in other states, such as the Compact for the Temporary Licensure of Professionals. The Government should also amend current licensing requirements to align them with those in mainland states that are home to significant Puerto Rican populations that might one day return to the Island (e.g., Florida, New Jersey, New York, Pennsylvania) or employ significant numbers of workers in industries that Puerto Rico aims to attract (e.g., knowledge services, hospitality and tourism) to facilitate relocations.

Additionally, the Government should create less burdensome occupational licenses in the future by employing less-restrictive alternatives for occupations that pose low risks to public safety, closely tailoring license requirements to mitigate specific health and safety risks, conducting regular cost-benefit analyses, and reducing barriers to inter-state mobility through the enactment of legislation.¹⁴⁸

¹⁴⁴ The White House, "Occupational Licensing: A Framework for Policymakers," 2015; Carpenter, et. al., "License to Work: A National Study of Burdens from Occupational Licensing," 2017

¹⁴⁵ Inventory performed by the Dept of State and AAFAF

¹⁴⁶ In 2019, applicants for designer licenses waited approximately 33 business days to receive their license (18 days at the board and 15 at DOS), while barbers waited nearly 160 days (117 days at the board and 40 at DOS). Puerto Rico Department of State, performance data shared with Oversight Board, 2019

¹⁴⁷ Virginia, for example, created an inventory of all statewide regulations and mandated a 25% reduction in occupational licensing rules; see Broughel, "A Dark Day for Red Tape in the Buckeye State," 2019

¹⁴⁸ These include certification, registration, mandatory bonding, or more direct regulation of companies; with certifications, for example, the Government would limit the use of professional titles to licensed workers but allow workers to practice a trade. See The White House, "Occupational Licensing: A Framework for Policymakers," 2015

9.5.2 Reform indicators

The Oversight Board will track the following indicators to ensure that the Government implements occupational licensing reforms:

- Average number of days to obtain an occupational license after application is complete
- Average number of days to renew a license
- Number of occupational licenses eliminated or harmonized with interstate compacts

To successfully implement occupational licensing reform, the Government should accomplish the following action items by their respective deadlines:

EXHIBIT 54: IMPORTANT ACTIONS FOR IMPLEMENTING OCCUPATIONAL LICENSING REFORM

	Action Item	Owner	Deadline
To be completed in FY2022	■ Establish working group of DOH, DOS, PRTC, FOMB and any related agency with Occupational Licenses	■ DOH, DOS, PRTC	■ Completed
	■ Identify all occupational licenses, requirements and processes using Institute of Justice License to Work methodology and compare to licenses in the U.S.	■ DOS, DOH, PRTC, DRD and UPR	■ September 30, 2021
	■ Establish a plan to reduce excessive licenses requirements and identify which licenses could be converted to less restrictive options like certification, bonding, insurance, inspections and registration	■ DOS, DOH, PRTC, DRD and UPR	■ October 31, 2021
	■ Design reform to reduce licensing by (1) creating protocol to streamline licenses, (2) joining interstate licensing compacts, and (3) aligning licensing rules with those in states with large Puerto Rican communities (NY, NJ, FL, TX)	■ DOS, DOH, PRTC, DRD and UPR	■ October 31, 2021
	■ Identify viable strategies to promote local boards compliance with licensing reforms	■ DOS, DOH, PRTC, DRD and UPR	■ November 30, 2021
	■ Publish performance report detailing (1) the average time and costs required to obtain each license type and (2) administrative or legislative changes made to reduce licenses or accelerate their processing	■ DOS	■ December 31, 2021
	■ Design Strategy to accelerate processing of licenses within DOH, DOS, PRTC, DRD (consolidating under one department)	■ DOS, DOH, PRTC, DRD	■ February 28, 2022
	■ Discuss licensing reform, compliance strategy, processing improvements, projected costs, and necessary administrative and legislative changes with Oversight Board	■ DOS, DOH, PRTC, DRD	■ February 28, 2022
To be completed in FY2023	■ Finalize necessary administrative and legislative changes required to implement occupational licensing reforms from FY2022 onward	■ DOS / Legislature	■ June 30, 2022
	■ Implement revised occupational licensing requirements	■ DOS	■ June 30, 2023

9.6 Deregulate on-Island freight

Puerto Rico is one of only two major U.S. jurisdictions that still regulates land freight prices. The cargo industry has sufficient providers to be able to compete on prices. Regulated freights in other jurisdictions in the past have reportedly decreased the quality of services rendered by carriers and shippers, and forced companies to hold additional inventory, all of which have helped increase the cost of doing business in Puerto Rico.¹⁴⁹ Rates in Puerto Rico are also at least double that of market rates in most states. Higher transportation costs negatively impact businesses and lead to more expensive consumer goods relative to the mainland.

Deregulation efforts undertaken in the late 1970s and early 1980s by the Carter Administration created a more competitive market environment for the U.S. motor carrier industry.¹⁵⁰ Building on this momentum, the Motor Carrier Act of 1980 (Act) further liberalized interstate trucking by allowing easier entry of trucking firms, relaxing pricing controls, and eliminating restrictions on

¹⁴⁹ Advantage Business Consulting, "Progress Report on Deregulation of Land Freight Rates," 2016.

¹⁵⁰ Rastatter, Edward H. May – June 2018. "Trucking Deregulation." Transportation News, pp. 33- 39

routes and the products that could be carried over them.¹⁵¹ Federal deregulation of interstate trucking culminated in 1995 with the passage of the ICC Termination Act, which abolished the Interstate Commerce Commission. Regulation of motor carriers (trucking companies and interstate bus lines) became from that point onward the responsibility of the Federal Motor Carrier Safety Administration (FMCSA), whose primary mission is to prevent motor vehicle-related fatalities and injuries. All states followed the Federal lead and by mid-1990's also eliminated nearly all price regulations, with continuing regulatory efforts focused predominantly on safety. As a result, since 1995 interstate trucking essentially is no longer subject to price or entry regulations.

Federal and state deregulation of interstate (and intrastate) trucking has produced significant efficiency gains and general gains in economic welfare by lowering trucking rates,¹⁵² improving services especially to small communities and remote areas,¹⁵³ less restrictive entry of workers into the industry¹⁵⁴, increasing number of licensed carriers,¹⁵⁵ increasing intermodal carriage,¹⁵⁶ increasing savings due to the substantial drop in the cost of holding inventories,¹⁵⁷ and increasing demand for brokering services due to the influx of small trucking firms into the motor carrier industry.¹⁵⁸

Similar to the impact of federal deregulation, the deregulation of land freights in Puerto Rico would likely reduce transportation costs for the Puerto Rican business community and ultimately, for consumers. Deregulation of land freight rates in Puerto Rico may potentially lead to trucking prices closer to those of the mainland. Moreover, it will increase flexibility of industry participants to negotiate directly and set prices, often with contract requirements that are more sophisticated and complex (for example, including provisions such as advertising incentives). It would also lead to a reduction in consumer prices.

In Puerto Rico the Transportation and Public Services Bureau (NTSP, by its Spanish acronym), is the agency that regulates public and private transportation. On December 23, 2020, the NTSP issued Circular letter 2020-35 temporarily increasing the minimum inland transportation freights by 35%, without identifying the impact on the economy. While the Circular letter has been enjoined by the local Court of Appeals¹⁵⁹, the decision to enforce the increase in rates appears to have coincided with a new interpretation of Act 75-2017 that expanded NTSP's regulations across new segments of the economy, including manufacturing and retail. In effect, this new interpretation of the law expanded regulation rather than deregulating as required by the Fiscal Plan. Retailers and manufacturers have historically established private contracts with carriers to transport merchandise to the point of sale, that were not under the purview of NTSP's rate setting. The pricing in these contracts has been negotiated often based on volume rather than distance, and often include other financial incentives, such as parking reimbursement, payment for advertising the company logo and public responsibility insurance, among others. The expansion of business segments covered by the regulation will directly impact consumer goods prices for all people in Puerto Rico. The tariff rate in Puerto Rico, if widely applied and enforced, would result

¹⁵¹ McMullen, B. Starr. 1987. "The Impact of Regulatory Reform on U.S. Motor Costs. A Preliminary Examination." *Journal of Transportation Economics and Policy*.

¹⁵² The average interstate truck load rates (TL) fell nearly 25% between 1977 and 1982 and the average less-than-truck load rates (LTL) fell nearly by 12%. See for example Owen, Diane. S. 1988. *Deregulation in the Trucking Industry*. Bureau of Economics. Federal Trade Commission

¹⁵³ *Trucking Deregulation in the United States*. September 2007. Submission by the United States to the Ibero-American Competition Forum

¹⁵⁴ Moore, Thomas Gale. *Trucking Deregulation*. The Concise Encyclopedia of Economics. Library of Economics and Liberty. <https://www.econlib.org/library/Encl/TruckingDeregulation.html>. Accessed July 22, 2020

¹⁵⁵ *Ibid.*

¹⁵⁶ *Ibid.*

¹⁵⁷ *Ibid.*

¹⁵⁸ Crum, M.R. Summer 1985. "The Expanded Role of Motor Freight Brokers in the Wake of Regulatory Reforms." *Transportation Journal*, pp. 5-15

¹⁵⁹ *Cámara de Comercio de Puerto Rico v. Negociado de Transporte y Otros Servicios Públicos*, KLRA202100025 (April 12, 2021)

in an estimated per mile trucking rate equal to between \$5.55 and \$7.51 per mile based on the rate schedule contained in the recently nullified Circular 2020-35. This compares to an average per mile cost of \$2.74 for the U.S. mainland.¹⁶⁰ The regulated rates in Puerto Rico are significantly higher (more than double) than in most regions of the U.S. If Puerto Rico were to deregulate pricing within the trucking industry, it is expected that per mile rates would decline to a level more consistent with other U.S. regions. Furthermore, NTSP would be better equipped to focus on compliance with environmental and safety regulations in the absence of tariff regulation.

The 2021 Fiscal Plan recommends the Government retract the extension of the tariff setting function of the NTSP to private contracts. The NTSP should maintain regulatory responsibilities over the previously covered segments of the economy that hauled cargo in spot transactions, without including private contracts. Based on the business model of the consumer goods distributors and their constant use of carriers, the tariff structure is not practical and it will disrupt their distribution models. The actual contracting model is a good example of how a free market operates and has proven to be successful. The NTSP should consider deregulating all of the tariffs to carriers after performing an in-depth analysis of the benefits and the costs associated with enforcing such tariffs. In addition, when increasing rates for covered segments, NTSP should ensure more inclusive procedures are instituted to prevent sudden unannounced changes, and that any proposed changes are supported by empirical data and analysis. This evidence should take into account impacts on industries and the economy as a whole. Finally, any new regulations should ensure they do not create undue barriers to entry for new market participants in the trucking industry. Currently, the Oversight Board is undergoing an analysis, including stakeholder meetings, to determine the nature and timing of next steps that will best serve the economy. It is crucial that any regulations should not create undue financial barriers to entry for new market participants in the trucking industry.

In addition, the NTSP should review the complete regulations to eliminate duplicate permitting processes between OGPe and the NTSP and to eliminate unnecessary documentation and processes required of carriers that add costs and are extremely time consuming.

9.6.1 Reform design parameters

The NTSP should undergo the regulatory process to update the regulations required under Law 38-2017, the Uniform Administrative Proceedings Act, which includes notifying the public of the regulations to be approved, provide opportunity for citizen participation, including public hearings when necessary or mandatory, submit the regulations to the Department of State for the corresponding approval. The NTSP must also submit the proposed regulation to the Oversight Board per PROMESA Section 204(b)(4). The Oversight Board recommends to the NTSP that it enhance the review process by including with its proposed regulation a study by a credible and independent economist built on a sound empirical foundation of the market for trucking services in Puerto Rico, including such details as shipping rates actually paid, trucking firm sizes, the number of trucking firms, and the number of firms using trucking services. The study should also include a simulation on the economic impact on any tariff increase on consumer prices, economic growth and tax collections. Moreover, the regulations should be reviewed to ensure they do not place oversized burdens on the trucking industry. It is critical that NTSP shares its evaluation methodology with stakeholders to ensure transparency in the process.

The regulations should also address reducing barriers to entry into the trucking sector, ensuring environmental and public safety without onerous requirements for trucking services providers.

To successfully implement deregulation of on-Island freights, the Government should accomplish the following action items by their respective deadlines:

¹⁶⁰ This estimate assumes an average trip of 55 miles which is half the distance from the two furthest land transport points in Puerto Rico (San Juan to Mayaguez)

EXHIBIT 55: REQUIRED IMPLEMENTATION ACTIONS FOR ON-ISLAND FREIGHTS REFORM

	Action item	Owner	Deadline
To be completed in FY2022	<ul style="list-style-type: none"> Revert tariff application to companies with negotiated contracts with carriers 	<ul style="list-style-type: none"> NTSP 	<ul style="list-style-type: none"> April 30, 2021
	<ul style="list-style-type: none"> Revise regulation to eliminate duplicate permitting processes, excessive requirements and documentation to carriers and clarify that contracts between carriers and companies are exempt from tariff requirements. 	<ul style="list-style-type: none"> NTSP 	<ul style="list-style-type: none"> December 31, 2021

9.7 Strengthen offshore investment attraction efforts

To transform Puerto Rico into a more competitive destination for offshore investment, the Department of Economic Development and Commerce (DDEC, by its Spanish acronym) should work together with Invest Puerto Rico (IPR), the Island's Investment Promotion Agency (IPA), in developing an economic development plan and providing them the tools and the resources to execute the strategies that would bring new investment, jobs and opportunities for local businesses to grow.

During FY2021, Invest Puerto Rico (IPR) prepared to execute several strategies for attracting new investment of life sciences and air cargo companies. IPR developed and published their promotional plan, their annual report and their monthly KPIs as required in the 2020 Fiscal Plan. Their efforts to attract investment generated a pipeline of approximately 1,700 in potential jobs and \$308 million in capital investment for the second half of the fiscal year. They attracted two life sciences companies that have agreed to set up operations in Puerto Rico, with \$228 million of capital investment and the creation of 400 high paying jobs. Even though they have been able to reach their goals in leads and opportunities closed, the investment attracted has not produced the jobs and the capital investment expected.

Attracting job-creating investments is crucial to Puerto Rico, as the number of business establishments in Puerto Rico was already in decline before the 2017 hurricanes.¹⁶¹ Jurisdictions across the globe have leveraged IPAs to attract offshore investments, fuel economic growth, and create jobs for their residents.¹⁶² Effective investment promotion efforts are especially important in the aftermath of the COVID-19 pandemic. Off-Island investments (from both U.S. mainland and international companies) and from companies that establish transshipment centers in Puerto Rico to benefit from the air cargo and passenger transfer hub waiver granted by the U.S. Department of Transportation, will play a crucial role in supporting economic growth and creating jobs necessary to help Puerto Rico economically recover from the COVID-19 pandemic. To achieve this, IPR partnered with the Pharmaceutical Industry Association (PIA) on an extensive analysis of the Island's competitiveness with regards to other similar jurisdictions in the U.S. and abroad to be able to target manufacturing companies considering shifting their supply chains to the U.S. In addition, Invest Puerto Rico is leading a multi-sectoral Air Transshipment Committee that has developed a comprehensive strategic plan and is actively working towards implementing initiatives to support the global logistics industry with the enactment of the U.S. DOT transshipment waiver, granted to Puerto Rico in April 2020. This collaboration, in addition to establishing new air cargo carriers on the Island, should increase direct routes, and stimulate new markets through Life Sciences company attraction, and expanding usage of the Foreign-Trade Zone (FTZ) status of the Island.

Stronger investment promotion will also help ensure that the Island can effectively compete with mainland states and other countries for critical investments aligned to the Island's competitive

¹⁶¹ Puerto Rico Department of Labor and Human Resources, Bureau of Labor Statistics, "Puerto Rico Economic Analysis Report: 2015-2016," 2016

¹⁶² In Ireland, for example, the Industrial Development Authority (IDA) has helped secure investments from many of the world's top pharmaceutical firms and software companies, and more than 210,000 Irish residents—nearly 10% of the country's workforce—are employed by IDA client companies. See IDA Ireland, "Local impact"; the World Bank Group via International Labor Organization, "Labor force, total – Ireland," 2019

advantages (e.g., life sciences research and manufacturing, knowledge services, and hospitality and tourism) – increasingly important as companies look to shift their supply chains in the aftermath of the COVID-19 pandemic.¹⁶³

9.7.1 IPR in comparison to other IPAs

Unlike other IPAs, Invest Puerto Rico only has one mandate: attract offshore investment (primarily from the mainland) to the Island. For this purpose, IPR has an annual budget of \$5 million, \$1.4 million of which is allocated to investment promotion.¹⁶⁴ However, according to an analysis by the OECD of IPAs in its member states, national IPAs commonly have about six mandates, including inward foreign investment promotion, export promotion, innovation promotion, regional development promotion, and granting financial incentives.¹⁶⁵ Sub-national IPAs (such as IPR) often have many of these same responsibilities, as well as domestic investment promotion, issuing relevant business permits, and operation of a business one-stop shop. To support IPR's promotional campaign as part of the broader effort to help the Island recover from recent natural disasters, Vivienda has allocated \$7 million in CDBG-DR funding to IPR to be used in FY2021. However, for future years DDEC should consider providing an increased budget to IPR tied to their ability to raise incremental new investment.

9.7.2 Reform design parameters

The 2021 Fiscal Plan recommends the Government adhere to a set of parameters to fully empower IPR to effectively attract growth-generating and job-creating investments to the Island. Specifically, the Government should:

- **Require IPR to publicly release performance data** clearly illustrating the effectiveness of its promotional campaign in bringing incremental investments to Puerto Rico.
- **Ensure that IPR implements the strategic plan it developed to compete with U.S. mainland states and other economies for investments** that arise as companies move to shift their supply chains to the U.S. to minimize risk.
- **Partner with DDEC and DPR to implement the integrated strategic plan developed to leverage the U.S. Department of Transportation (DOT) air hub waiver** authorizing international air cargo and passenger transfers in Puerto Rico's international airports to foster economic development and spur tourism (if effectively utilized, the waiver is expected to generate \$30 million in additional payroll by 2022).¹⁶⁶ The waiver authorizes international air carriers to transfer cargo and passengers from any of their aircrafts to any of their other aircrafts restricted in many U.S. Airports. The activities allowed by the waiver within Puerto Rico international airports are: to transfer cargo and passengers from any of their aircrafts to any other aircraft provided that the aircraft are operating to/from a point in the carrier's homeland; make changes in the type of number of aircrafts used to transfer cargo and passengers, provided that in the outbound direction, the transportation beyond Puerto Rico is a continuation of the transportation from the carrier's homeland to Puerto Rico, and in the inbound direction, the transportation to the carrier's homeland is a continuation of the transportation from behind Puerto Rico. It also allows the commingling of cargo and passenger traffic moving in foreign air transportation with cargo and passenger

¹⁶³ Rapoza, "New Data Show U.S. Companies are Definitely Leaving China," 2020

¹⁶⁴ For comparison, JobsOhio has an annual budget of \$134 million, Invest Atlanta of \$40 million, and Enterprise Florida of \$37 million. The average national IPA, meanwhile, as a budget of \$68 million (\$12 million of which is allocated to investment promotion) and the median national IPA a budget of \$12 million (with \$5 million allocated to investment promotion). See Organization for Economic Cooperation and Development, "Mapping of Investment Promotion Agencies in OECD Countries," 2018

¹⁶⁵ These include inward foreign investment promotion (100% of IPAs), export promotion (56%), innovation promotion (56%), promotion of regional development (50%), green investment promotion (44%), domestic investment promotion (41%), granting financial incentives (31%), outward investment promotion (28%), trade facilitation (25%), and screening and approving investors (25%); see Organization for Economic Cooperation and Development, "Mapping of Investment Promotion Agencies in OECD Countries," 2018

¹⁶⁶ Issued in February 2020, the waiver is expected to allow at least 10 new flights per day, creating 900 new jobs and increasing payroll by about \$30 million (according to a study by Estudios Tecnicos, Inc.)

traffic not moving in foreign air transportation. They should also work together with DDEC to renew the waiver in 2022.¹⁶⁷

- **Continue its efforts to attract companies in the eight targeted industries:** Energy, Creative Industries, Innovation & Entrepreneurship, Finance & Insurance, Professional Services, Technology, Air Cargo and Lifesciences.
- **DDEC should provide IPR with the tools and capabilities to offer existing idle Government properties** (e.g., abandoned industrial parks, factories, storage facilities) that could be used by potential investors as they explore the possibility of running their businesses on the Island. The Oversight Board encourages close coordination between the DDEC and IPR to allow IPR to present to investors a more compelling offer, as finding the right location to run operations in a new area is time-consuming and challenging. It could also provide IPR with a new source of revenue (e.g., through brokerage fees on each transaction) and help the Government leverage their unused properties.

9.7.3 Reform targets

The 10-year collaboration agreement between DDEC and IPR establishes a set of multi-year performance targets. Despite the disruptions caused by the pandemic, the growing number of firms considering shifting their supply chains to the U.S. to minimize risk in the aftermath of the pandemic—if well targeted—will ensure that IPR can meet or exceed its contractual obligations. As such, IPR should generate, according to their collaboration agreement, by the end of FY2023, at least: 4,400 new businesses, 26,000 new jobs, \$923 million in capital investments, and \$40,000 in average payroll committed by each new business.

To successfully implement investment attraction reform, the Government should accomplish the following action items by their respective deadlines:

EXHIBIT 56: IMPORTANT ACTIONS FOR IMPLEMENTING EFFECTIVE OFFSHORE INVESTMENT ATTRACTION

	Required implementation actions	Owner	Deadline
To be completed in FY2021	Identify KPIs that IPR will report to AAFAF on a monthly basis	IPR, AAFAF	Completed
	Develop clear list of target sectors and companies that IPR will target as it works to take advantage of efforts to rebalance supply chains toward the U.S. and capitalize on the DOT air hub waiver and discuss with Oversight Board	IPR	Completed
	Establish Airhub working group comprised of DDEC, DoT, DPR, Ports Authority, Land Administration, Private Sector and the FOMB to design and implement economic development strategy that leverage the newly issued Air Transit Waiver	DDEC	Completed
	Send KPI report to AAFAF	IPR	Completed
	Update 2019-2020 promotional plan to clearly detail strategy to capture investment from companies rebalancing their global supply change and those that can benefit from the Air Transfer Hub Waiver	IPR	Completed
	Publish annual performance report	IPR	Completed
	Design economic development strategy and share with Oversight Board	Working group	Completed
	Discuss economic development strategy and projected costs with Oversight Board	Working Group	Completed
	Publish promotional plan for upcoming calendar year	IPR	Completed

¹⁶⁷ With Federal approval, the waiver can be renewed every two years

	Required implementation actions			Owner	Deadline
To be completed in FY2022	▪ Develop a value proposition on Puerto Rico's supply chain value for Biden Administration			▪ IPR / DDEC	▪ July 31, 2021
	▪ Connect the local Innovation & Entrepreneurship ecosystem to global capital			▪ IPR / Working Groups	▪ July 31, 2021
	▪ Coordinate with PRIDCO to continuously receive updated list of government properties			▪ IPR/PRIDCO	▪ July 31, 2021
	▪ Have 20+ new qualified properties listed on State book			▪ IPR	▪ July 31, 2021
	▪ Support 5G Zone Center of Excellence by completing marketing material and webpage			▪ IPR	▪ July 31, 2021
	▪ Complete marketing material and webpage, including opportunity for companies to sign up			▪ IPR	▪ July 31, 2021
	▪ Conduct business mission in targeted geographies in coordination with strategic partners			▪ IPR / Working Groups	▪ October 31, 2021 –ongoing
	▪ Implement strategy to attract targeted industries beside manufacturing (technology, professional services, finance and insurance, etc.)			▪ IPR / Working Groups	▪ October 31, 2021 –ongoing
	▪ Conduct familiarization tour with select group of investors and C-suite executives			▪ IPR	▪ December 31, 2021
	▪ Develop and execute an outreach program to identify and target prospective transshipment companies			▪ IPR	▪ December 31, 2021
	▪ Develop customized business cases to pitch to companies			▪ IPR	▪ December 31, 2021
	▪ Implementation of strategy to attract manufacturing reshoring to the U.S.			▪ IPR	▪ December 31, 2021
	▪ Develop and execute an outreach program to target companies, including event activations, campaigns and other business development tactics			▪ IPR / Working Groups	▪ December 31, 2021
	▪ Conduct familiarization tour with select group of site selectors and corporate real estate			▪ IPR / Working Groups	▪ December 31, 2021
	▪ Support DDEC and work with key industry stakeholders to help strengthen sector			▪ IPR / DDEC	▪ December 31, 2021
	▪ Have a comprehensive list of real estate assets that IPR can market on web page that represents opportunities across sectors, sizes, and geographies			▪ IPR	▪ December 31, 2021

9.8 Prime tourism attraction efforts for success

To continue Puerto Rico's transformation into a leading Caribbean tourism destination, the Government should expand the mandate and resourcing of Discover Puerto Rico (DPR), the Island's Destination Marketing Organization (DMO). Despite its natural beauty and rich culture, Puerto Rico underperformed as a tourism destination even before the 2017 hurricanes. For example, the Island was ranked 55th in the 2015 *Travel and Tourism Competitiveness Report*—an independent assessment of the strength of the tourism sector in 141 economies conducted by the World Economic Forum.¹⁶⁸ Destinations across the globe have leveraged DMOs to attract visitors, generate economic activity, and create jobs.¹⁶⁹ In Puerto Rico's case, DPR became fully operational in early 2019, when it launched its first promotional campaign and played an important role in driving record tourism performance in 2019. Effective management of on- and off-Island tourism marketing efforts will remain especially critical in the aftermath of the COVID-19 pandemic, which effectively crippled global tourism and the Island's industry and associated sectors (e.g., cruises). The leisure and hospitality industry was one of the hardest hit sectors in Puerto Rico, with 43% of employment lost in April 2020 (approximately 35,000 jobs).¹⁷⁰

COVID-19 has had an enormous impact on global tourism and the Island's tourism sectors. As Puerto Rico looks forward, the Oversight Board is encouraged that, according to third-party travel

¹⁶⁸ The mainland, for comparison, was ranked 6th that same year. See World Economic Forum, *Travel and Tourism Competitiveness Index 2015*, 2015. Puerto Rico has not been participating in this Index after 2015, therefore there are no recent numbers

¹⁶⁹ For example, the Barbadian Tourism Product Authority (TPA), created in 2014, helped increase the travel and tourism sector's direct contribution to Barbados' GDP (5.4% contribution in 2015, 10.3% contribution in 2016) and employment (4.3% contribution in 2015, 9.8% contribution in 2016). The creation of a DMO in New Orleans, LA was linked to higher business activity in other nearby cities as higher tourism demand for flights to New Orleans facilitated economic development in surrounding areas. And, in Chicago, the creation of a DMO helped raise the city's business exposure, resulting in a partnership between the city's DMO and its World Business Chicago (WBC), the city's economic development agency, to promote the city as both a tourist and business destination. As a result, 70% of WBC marketing is conducted via Chicago's DMO; see Oxford Economics, "Destination Promotion: An Engine of Economic Development," 2014

¹⁷⁰ U.S. Bureau of Labor Statistics

data, Puerto Rico had been moving the needle of growth in this sector pre-COVID-19 and that it is starting to recover from the pandemic. The tourism sector's contributions to the economy and Island-wide employment surpassed historic trends in 2019,¹⁷¹ air arrivals and lodging demand reached record levels in 2019,¹⁷² and DPR's media campaign is credited with spurring higher spend and longer hotel stays among visitors.¹⁷³

With a limited budget on the first six months of FY2021, DPR had to cut expenses by 56% by reducing staff from 60 to 45, reducing salaries to top earners and/or cancelling non-essential contracts. However, this did not stop their promotional efforts since they shifted their marketing and sales activities to digital. These efforts resulted in Puerto Rico achieving the highest number of web searches for people considering traveling in the coming months. In the past months, DPR has taken several initiatives to keep Puerto Rico in the top of mind of travelers, such as doing virtual tours of the Island and integrations in programs such as morning talk shows. In addition, they have been preparing for the recovery of the industry by developing a comprehensive rapid recovery plan. However, implementing their recovery plans will be dependent on availability of funds from PRTC and/or additional funding from the CARES Act and CBDG-DR.

9.8.1 DPR in comparison to other U.S. and Caribbean Destination Marketing Offices (DMOs)

DPR has a smaller mandate and lower budget in comparison to other DMOs. In FY2021 DPR has only received 40% or \$6 million of the contracted budget from the PRTC. The typical DMO markets to six distinct segments: visiting individuals and families; groups (e.g., family reunions); Meetings, Incentives, Conferences, and Exhibitions (MICE); events (e.g., major sports tournaments); local residents; and airlines (e.g., purchasing airline ads, subsidizing seats). DPR, however, is only responsible for marketing to individuals, groups, and MICE. PRTC continues to manage event, internal, and airline marketing. DPR also has a smaller budget than other Caribbean destinations —\$25 million (or \$943 per available hotel room) or 60% of the average budget of \$42.1 million (or \$1,485 per room) for Caribbean DMOs.¹⁷⁴

9.8.2 Reform design parameters

The 2021 Fiscal Plan recommends the Government adhere to a set of parameters to enable DPR to capitalize on its early successes and continue leading the Island's emergence as a leading tourist destination. Specifically, DPR should:

- **Work in conjunction with the PRTC in internal tourism, airline, and event marketing** to ensure a uniform and consistent approach and to leverage DPR's expertise and knowledge on research and digital media.
- **Implement passenger component of Air Transit Hub strategy developed by DPR** that capitalizes on the recently-issued Federal DOT waiver. This would involve recruiting a consultant to work with the airlines to align the air transit hub with their business models. DPR also needs funding for marketing the cargo hub to international markets to generate the demand. There is a possibility that additional CBDG-DR funds be assigned to DPR for marketing and promotions that could be used for this purpose.
- **Maximize promotional dollars from funds obtained from the CARES Act and CBDG-DR.** To support DPR's promotional campaign as part of the broader effort to help the Island recover from recent natural disasters, Vivienda has allocated \$7.8 million in CDBG-DR

¹⁷¹ World Travel & Tourism Council, "Puerto Rico: 2019 Annual Research: Key Highlights," 2019.

¹⁷² Aerostar, AirDNA, Discover Puerto Rico, Smith Travel Research. In 2019, Puerto Rico welcomed 5.2 million visitors (2016, the previous record-holder, had only 4.8 million air arrivals). Similarly, lodging demand reach 4.7 million units (in both hotels and independent lodging units), up from 4.6 million units in 2017.

¹⁷³ ADARA Impact, Arrivalist. Visitor exposed to DPR media stayed 4.8 days on average (vs. 4.3) and spent an average of \$217 on lodging per night (vs. \$199).

¹⁷⁴ DPR budget is the established amount on 10-year contract with PRTC, in 2020-21 DPR have not received contracted amount due to lower room tax collected by PTRC. Numbers for other Islands comes from Destinations International.

funding to DPR for digital and broadcast advertising. It must be spent before February 8, 2022. In addition, the Government assigned \$15.8 million from CARES Act for the same purpose to be spent before December 31, 2021. These funds were intended to increase marketing efforts on Puerto Rico to help the Island recover from the hurricanes and the Covid-19 pandemic, but because the PRTC have not been sending the contracted funds for DPR, these funds will be used for regular promotion.

- **Continue to strengthen the DPR brand through all marketing and promotions by maintaining a consistent message on Puerto Rico strengths as a destination.**
- **Implement destination visitor research program** to pivot marketing campaigns according to visitor's preference and to communicate to Government agencies areas of opportunities on infrastructure and services.
- **Implement a Small and Medium Enterprises (PYMEs, by its Spanish acronym) recovery plan to help the industry prepare for reinvigorated tourism after the pandemic.**

9.8.3 Reform targets

DPR's initial performance indicates that the organization can effectively compete with top-ranked Caribbean DMOs and destinations in attracting visitors and growing the Island's tourism sector. Given the COVID-19 pandemic's impact on global tourism, however, no targets were in effect for FY2021.¹⁷⁵ Nevertheless, after massive vaccination in the U.S. and demonstrated interest from travelers to come to Puerto Rico, DMO should work toward achieving the targets below in FY2022:

- -10% vs. pre-COVID in the tourism sector's direct contribution to GNP
- -12% vs. pre-COVID in direct contribution to employment
- -10% vs. pre-COVID average travel receipts per visitor per year
- -14% vs. pre-COVID in tourist visitors per year
- -25% vs. pre-COVID meetings and conventions attracted to the Island¹⁷⁶

To successfully implement investment attraction reform, the Government should accomplish the following action items by their respective deadlines:

¹⁷⁵ Targets are reduced in response to a projected 71% reduction in global air travel in 2020 (relative to 2019) and a 58% reduction in 2021 (also relative to 2019).

¹⁷⁶ Targets are reduced in response to a projected 71% reduction in global air travel in 2020 (relative to 2019) and a 58% reduction in 2021 (also relative to 2019)

EXHIBIT 57: IMPORTANT ACTIONS FOR IMPLEMENTING EFFECTIVE TOURISM ATTRACTION

Action item	Owner	Deadline
<ul style="list-style-type: none"> Create and share Puerto Rico's Travel and Tourism Competitiveness scorecard with Fortaleza, the Legislature, PRTC, and the Oversight Board 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> Completed
<ul style="list-style-type: none"> Design air hub strategy and share with Oversight Board 	<ul style="list-style-type: none"> Working Group 	<ul style="list-style-type: none"> Completed
<ul style="list-style-type: none"> Design air hub strategy with Oversight Board 	<ul style="list-style-type: none"> Working Group 	<ul style="list-style-type: none"> Completed
<ul style="list-style-type: none"> Publish promotional plan for upcoming calendar year 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> Completed
<ul style="list-style-type: none"> Establish air hub working group comprised of DDEC, DPR, IPR, Land Admin, Ports and private sector to design economic development strategy that leverages new USDOT air hub waiver. 	<ul style="list-style-type: none"> DDEC 	<ul style="list-style-type: none"> July 1, 2021
<ul style="list-style-type: none"> Assure funding for implementation of passenger component of Air Transit Hub 	<ul style="list-style-type: none"> DPR/DDEC 	<ul style="list-style-type: none"> July 31, 2021
<ul style="list-style-type: none"> Establish and document Strategic marketing plan (to drive demand) for passengers through Air Transit Hub 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> July 31, 2021
<ul style="list-style-type: none"> Participate with PRTC in the development of internal tourism marketing strategy 	<ul style="list-style-type: none"> DPR/PRTC 	<ul style="list-style-type: none"> July 31, 2021
<ul style="list-style-type: none"> Participate with PRTC in development of airline marketing strategy 	<ul style="list-style-type: none"> DPR/PRTC 	<ul style="list-style-type: none"> July 31, 2021
<ul style="list-style-type: none"> Implement 1st Phase of Small and Medium Enterprise (PYME) recovery plan 	<ul style="list-style-type: none"> DPR, Governor 	<ul style="list-style-type: none"> August 31, 2021
<ul style="list-style-type: none"> Implement destination visitor research program 	<ul style="list-style-type: none"> DPR, PR & Federal Government 	<ul style="list-style-type: none"> October 31, 2021
<ul style="list-style-type: none"> Launch Phase II of (PYME) recovery plan 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> December 31, 2021
<ul style="list-style-type: none"> Secure fully-funded Co-op budget of \$5M, per the law (Act 2017-17) 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> December 31, 2021
<ul style="list-style-type: none"> Implement passenger component of Air Transit Hub project based upon strategy developed by DPR - Launch passenger recruitment 	<ul style="list-style-type: none"> DPR, DDEC/PRTC 	<ul style="list-style-type: none"> January 31, 2022
<ul style="list-style-type: none"> Launch Phase I of Island wide multimedia content repository collaboratoria 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> January 31, 2022
<ul style="list-style-type: none"> Generate \$12:1 ROI for overall investment in PYME recovery plan 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> June 30, 2022
<ul style="list-style-type: none"> Launch Phase II of Island wide multimedia content repository 	<ul style="list-style-type: none"> DPR 	<ul style="list-style-type: none"> June 30, 2022

To be completed in FY2022

Chapter 10. Power sector reform

10.1 Introduction and context for energy reform

Affordable, reliable, safe, and resilient electric power service is essential for Puerto Rico's economic growth and development. It is a fundamental enabler of the people of Puerto Rico's livelihoods, and remains a critical service that needs to be safeguarded, particularly in light of the outsized catastrophic events in 2020 (e.g., January 2020 earthquakes, COVID-19 pandemic). As an important element of household and business activity, electricity is also a critical factor for attracting and maintaining investment in Puerto Rico. Since 1941, the Puerto Rico Electric Power Authority (PREPA) has been responsible for providing electricity to Puerto Rico. PREPA is a public corporation, owned and operated by the Government of Puerto Rico.

PREPA has been encumbered by numerous financial and operational issues. Over the years, PREPA has failed to update rates to cover base operating costs, neglected to invest in modernizing the system, avoided adequately funding the utility's pension system, and underinvested in maintenance and resiliency initiatives for its assets. Furthermore, prior to filing for PROMESA Title III protection, PREPA incurred significant legacy debt obligations, failed to implement a long-term capital improvement program, and made decisions based on short-term political gains (e.g., avoiding modest rate increases), all of which have culminated in consistently poor and unreliable service.

This operating model has created an untenable financial and operational situation for PREPA. Politicized management and volatile fuel prices – exacerbated by declining demand and an economic contraction – have resulted in PREPA's inability to service its debt, and ultimately

resulted in PREPA seeking PROMESA Title III protection in July 2017.¹⁷⁷ For several years prior to filing for PROMESA Title III protection, PREPA lacked access to the capital markets to help fund grid and generation maintenance and modernization investments, further contributing to the poor quality of service experienced by the Island's residents and businesses.

Underinvestment and underdevelopment of the grid, poor maintenance practices, and workforce losses all contributed to an unsatisfactorily performing power sector. Puerto Rico has almost twice as many forced outages as the U.S. industry average.¹⁷⁸ PREPA also significantly underperforms against mainland utilities on multiple reliability and customer service dimensions, as well as safety and operational metrics:

- **The reliability of service provided by PREPA to Puerto Rico's residents and businesses remains well behind industry standards when compared to benchmarks from the Institute of Electrical and Electronics Engineers (IEEE)**¹⁷⁹: For instance, the median performance among the U.S. utilities reporting in the 2020 IEEE Benchmark¹⁸⁰ is a System Average Interruptions Frequency Index (SAIFI) of 1.12 interruptions per year and a System Average Interruptions Duration Index (SAIDI) of 126 minutes per year¹⁸¹. Whereas, for 2019, PREPA reported a SAIFI of 4.6, and a SAIDI of 675 minutes. Outside reviews suggest service reliability may be worse than reported by PREPA. For example, an assessment conducted by LUMA – using the industry standard IEEE methodology – as part of its Front-End Transition responsibilities and submitted to the Puerto Rico Energy Bureau (PREB) reports a SAIFI of 9.8, and a SAIDI of 1,097 minutes for PREPA in 2019.

EXHIBIT 58: RELIABILITY METRICS COMPARED TO PEER GROUP MEDIAN

Metric	PREPA CY 2019	PREPA CY2019 (calculated by LUMA)	IEEE median, 2019 188
System Average Interruption Duration Index (SAIDI) Minutes per year	675	1,097	126
System Average Interruption Frequency Index (SAIFI) Number of interruptions per year	4.6	9.8	1.12

- Employee Safety incidents are high by utility standards: PREPA's Recordable Incident Rate for 2019 is 8.76 while the Edison Electric Institute (EEL) average rate is 1.78.¹⁸²
- Vegetation management issues caused 17% to 28% of service interruptions in 2020, representing an improvement when compared to the 35% to 45% of 2016¹⁸³. PREPA lacks a comprehensive vegetation management strategy and has historically been slow to spend allocated budget amounts for tree-trimming initiatives¹⁸⁴ During the 2020 fiscal year, PREPA

¹⁷⁷ "Puerto Rico's Power Authority Effectively Files for Bankruptcy", New York Times, 2 July 2017

¹⁷⁸ PREPA reported 417 forced outages during 2020; U.S. Energy Information Administration (EIA), Independent Statistic & Analysis, Major Disturbances and Unusual Occurrences, Year-to-Date 2020

¹⁷⁹ The IEEE is a technical professional organization that develops and publishes standards related to the collection, measurement and calculation of key electrical reliability indices, including System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI). In order to benchmark a utility's performance in SAIDI and SAIFI against that of other utilities, IEEE provides rules on how data can be collected, measured and calculated according to the same standards. Participation is limited to North American electric entities

¹⁸⁰ Based on 2019 data

¹⁸¹ IEEE Benchmark Year 2020 Results for 2019 Data, 2020 Distribution Reliability Group Virtual Meeting

¹⁸² The Edison Electric Institute (EEL) provides comparable benchmarks specific to transmission and distribution operations in the United States. EEL was established in 1933, is an association that represents all U.S. investor-owned electric companies. Its members provide electricity for 220 million Americans, operate in all 50 states and the District of Columbia, and directly employ more than 500,000 workers

¹⁸³ "...[PREPA] describes itself as always playing a catch-up game on maintenance — following outages, instead of improving the fundamental system." Fisher and Horowitz, Expert Report, p 33

¹⁸⁴ PREPA, "Professional & Technical Outsourced Services," B2A YTD-Expenses, Budget to Actual Variance Report for the Second Quarter of Fiscal Year 2021, (data set, February 16, 2021)

only spent 10% of its \$50 million budget for vegetation management. Mainland U.S. utilities, by contrast, typically have operating budgets where vegetation management is one of the largest spend category. More recently, PREPA has shown improvement in this area. As of February 2021, PREPA has obligated 89% of its \$70.5 million budgeted for vegetation management, out of which 20% (\$14 million) has been spent. In terms of miles cleared, as of February 2021, 732 miles out of 2,595 had been cleared, representing approximately 28% of total miles contracted.¹⁸⁵

- Puerto Rico's emissions from electricity generation remain relatively high as compared to the rest of the U.S. due to a high reliance on fossil fuels and the continued use of older and inefficient facilities. This is due to a severe lack of investment into generation assets, low asset reliability, and maintenance of a very high reserve margin.
 - **High reliance on fossil fuels:** Puerto Rico's generation fleet is highly dependent on fossil fuels. In FY2020, over 97% of the Island's electricity was generated using fossil fuels¹⁸⁶. As a comparison, the U.S. national average was approximately 60% for the same period. Fossil fuel generation makes Puerto Rico vulnerable to changes in fuel prices, which can substantially increase generation costs and thus increase electricity prices for its residents.
 - **Lack of capital investments in new generation assets:** Minimal capital investments into generation assets have resulted in an aged and highly unreliable fleet; the average age of PREPA's generation fleet is 41 years¹⁸⁷ compared to the U.S. average of only 18 years.¹⁸⁸ As a result, asset reliability has been poor, and PREPA is often forced to rely on its diesel generators that would otherwise be inactive or retired.¹⁸⁹
 - **Maintenance of a very high reserve margin:** PREPA has historically maintained a very high reserve margin, keeping more than double the capacity needed to serve demand.

Previous Fiscal Plans of the Commonwealth and PREPA have outlined a comprehensive power sector transformation to address PREPA's financial and operational challenges, which have been caused by mismanagement, underinvestment and underdevelopment of the grid, as well as poor operations and maintenance practices. Although the first steps on PREPA's transformation journey, that started over the last 3 years, have already led to increased financial stability, a number of challenges still lie ahead.

10.2 Vision for power sector transformation

Over the next years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable, clean, and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from the 2021 Fiscal Plan projections. The successful transformation of Puerto Rico's power sector depends on:

1. **Implementing regulatory reform:** A strong and independent energy sector regulator is essential for injecting certainty and stability into the energy market, promoting much needed investments, and enforcing compliance with the energy sector transformation's objectives. In recent years, the framework of regulatory reform has been approved and an independent

¹⁸⁵ FY2021 Fiscal Plan Initiatives Reporting, January 15, 2021; PREPA's Vegetation Management report, February 2021

¹⁸⁶ "Puerto Rico: Profile Overview." U.S. Energy Information Administration, last modified November 21, 2020

¹⁸⁷ PREPA, *2019 Fiscal Plan*, p 30

¹⁸⁸ US Congress, *Exploring Energy Challenges and Opportunities*, p 4

¹⁸⁹ "A review of PREPA's generation patterns reveals that PREPA, in fact, increased its reliance on the diesel generation fleet in FY2015 and FY2016, doubling its use of distributed generation turbines and tripling its use of the diesel Aguirre CC plant." Fisher and Horowitz, *Expert Report*, 31-32

regulator, the Puerto Rico Energy Bureau (PREB), has been established. The focus in coming years will be continuing to support the independence of the regulator and enabling the regulator to execute on its mandate. This will be accomplished by developing and strengthening the regulatory framework and promoting greater transparency and accountability.

- 2. Transitioning the operation and management of PREPA's electricity grid and generation assets to private operators, while moving the energy system to 100% renewables:** Attracting a private operator to manage and operate Puerto Rico's Transmission and Distribution (T&D) network will improve affordability, operational performance and customer service, support rigorous capital project execution to modernize the system, strengthen grid resilience, and ensure ongoing fiscal balance and control. As such, on June 22, 2020, the transformation of the Island's energy system took another step forward through the execution of the agreement¹⁹⁰ with LUMA Energy, LLC (LUMA). Under the agreement, LUMA is responsible for, among other activities, the operation and maintenance of the transmission and distribution assets and system. On November 10, 2020, the Puerto Rico Public-Private Partnership Authority (P3A) issued a Request for Proposals (RFP) to select one or more private operators for PREPA's existing generation assets. Two of the major tasks that LUMA, as the entity responsible for the Integrated Resource Plan (IRP) implementation, will have to enable and undertake are the transition of the power sector to 100% renewable energy, as mandated by Act-17, as well as the maximization and efficient delivery of federal funds for the modernization of Puerto Rico's energy grid.
- 3. Restructuring legacy debt obligations:** To fund the transformation of Puerto Rico's power sector, PREPA will require access to capital markets. Given the utility's significant legacy debt obligations, a sustainable restructuring plan is necessary for PREPA to exit Title III and regain access to traditional credit markets. Without restructuring, customers will experience higher rates, resulting from repayment of a higher legacy obligation and risk premiums associated with the Title III case. Ultimately, successful restructuring of outstanding bonds and debt obligations will allow PREPA to achieve its transformation goals, thus modernizing Puerto Rico's power grid, and passing on subsequent efficiencies and cost savings to end users.

PREPA's Certified 2021 Fiscal Plan and the energy public policy and legal framework established by the Government of Puerto Rico¹⁹¹ lays out the transformation roadmap. If successfully implemented, a reformed energy system will lead to a modernized and reliable energy service across the Island: a diversified fuel mix and reduced fuel costs, anchored on low-cost renewable energy generation resources; increased operational efficiencies; and a well-funded, financially sustainable utility. These outcomes will benefit the customers and businesses of Puerto Rico through more affordable, reliable, clean, and safe electricity service.

10.2.1 Energy regulatory reform and oversight

As previously stated, the current regulator of the power sector in Puerto Rico is the Puerto Rico Energy Bureau (PREB), which has been operational since its creation by Act 57-2014. PREB has the responsibility to "regulate, monitor, and enforce the energy public policy of the Commonwealth of Puerto Rico."

As Puerto Rico's energy sector is transformed into a vibrant, modern system, PREB will continue to be responsible for the development of a robust regulatory framework that will promote prudent investments by utilities, increase quality of service to customers, and ensure industry trends and technological advancements are appropriately incorporated into Puerto Rico's energy system. To that end, PREB's regulatory oversight will directly impact the utility and have significant influence

¹⁹⁰ This agreement was deemed to be compliant with the Commonwealth's energy policy by PREB on June 17, 2020 and approved by PREPA's Governing Board, the Governor, and the Governor of Puerto Rico on June 22, 2020

¹⁹¹ Puerto Rico Energy System Transformation, Act No. 120-2018; Puerto Rico Energy Policy Act, Act No. 17-2019

on Puerto Rico's energy sector. To fully achieve its purpose, PREB should remain financially independent from the Government and its decisions, and its determinations should be free from any political influence or interference.

To ensure PREB becomes a best-in-class regulator, several structural changes are required, as detailed below. In addition, the following section provides a description of what PREB's roles and responsibilities will be in the long-term as well as the near-term delineation responsibilities between PREB and the Oversight Board.

Long-term mandate, authorities, and expertise for the energy sector regulator

To be effective, PREB's regulatory authority and its mandate to promote an efficient, reliable, resilient, and customer-responsive energy system must be clear and well-established. In a transformed energy system state (after emergence from Title III), PREB's responsibilities include (1) rate setting, (2) Integrated Resource Plan (IRP) approval and compliance oversight, (3) protecting customers, and (4) ensuring workforce safety.

Rate setting for non-legacy debt: PREB should "review and approve and, if applicable, modify the rates or fees charged by electric power service companies in Puerto Rico."¹⁹² In doing so, PREB should ensure rates and rate structure are rational and predictable, minimize risk and "rate shock", and create incentives to support equitability and economic development. PREB should set a clear, transparent, and efficient process for rate cases. All rate adjustments and revisions, other than those approved under the plan of adjustment, must be approved by PREB before enactment. In this capacity, PREB must ensure that necessary operational frameworks are in place to not only provide a robust review process in line with best-in-class U.S. state regulators, but also ensure that rate reviews are conducted efficiently and in a manner that does not adversely impact service performance or consumer confidence.

Over the next years, PREB should encourage the implementation of several core principles within rate case proceedings, including the development of dynamic rate structures (e.g., time of use, rate decoupling, unbundling), evaluating prudence of investments and cost of service, and analyzing the distribution of cost and revenue allocations.

Integrated Resource Plan (IRP) approval and compliance: PREB is mandated to "review and approve policies and strategic plans [...] in connection with energy resources integrated planning in Puerto Rico, and oversee compliance therewith."¹⁹³ During review, PREB should assess related policies and plans on whether they meet the objectives of Puerto Rico's energy public policy and promote energy service reliability, safety, efficiency, and affordability.

Protecting customers and customer service: PREB is responsible for ensuring energy prices are just and reasonable, investments are aimed at improving service quality, and reliability, and customers have access to information regarding their rights and responsibilities. This includes reviewing potential policies, rates, and capital projects for their potential effects on customers and service quality, and ensuring customers understand and have the ability to voice their opinions regarding future decisions. PREB is also responsible for addressing customer complaints and ensuring customers are not subject to unjust or abusive practices by their energy providers.

Ensuring safety: PREB is responsible for ensuring the safe operation of Puerto Rico's utilities for workers and the public. This is particularly important given the high number of safety incidents PREPA has experienced by U.S. utility standards. PREPA experiences significantly higher workplace incidents than the average U.S. utility. From 2018 to 2019, PREPA's recordable Incident Rate fell from 10.7 in 2018 to 8.76 in 2019, yet it was nearly five times higher than the U.S. average of 1.78.¹⁹⁴ PREB should develop a comprehensive safety plan addressing overall

¹⁹² "About the Puerto Rico Energy Bureau" at Puerto Rico Energy Bureau website. Accessed April 20, 2021.

¹⁹³ Ibid.

¹⁹⁴ The Edison Electric Institute (EEI) provides comparable benchmarks specific to transmission and distribution operations in the United States

safety culture at regulated entities and ensure that utilities have sufficient resources to comply with these plans. Finally, PREB should establish, track, and analyze key safety performance metrics, and monitor the effectiveness of utility safety programs.

Regulator expertise

To implement its long-term mandate in a robust and effective manner, PREB must build expertise on topics that reflect the core regulatory priorities facing most regulators:

- Generation planning and dispatch
- T&D reliable operations and capital planning
- Workplace safety
- Customer service
- Rate-making

In addition, PREB can build expertise in topics that are increasingly addressed by regulators across the mainland so that Puerto Rico's energy sector is able to match pace with best-in-class utilities. By doing so, PREB can provide proper guidance to sector players on how to secure, modernize, and efficiently operate the grid. These topics include:

- Contribution-in-lieu of taxes (CILT)
- Renewable energy integration (distributed and commercial)
- Weather-related risks (e.g., hurricanes, climate change)

Authorities for the energy sector regulators during transformation

Until PREPA emerges from Title III and the transformation of the energy system is complete, it is important to clearly delineate the role of the Oversight Board and PREB with respect to energy sector regulation. The table below describes the role of each entity during the transition period:

EXHIBIT 59: ROLES OF THE OVERSIGHT BOARD AND PREB DURING THE TRANSITION PERIOD

	Oversight Board	PREB
IRP	Approves revenue requirements and expenditures in the Fiscal Plan for PREPA. PREPA's Fiscal Plan should be informed by the results of the IRP and provide a clear framework for executing the modernization of generation resources.	Approves the IRP. The IRP process shall be open and transparent so that third parties can understand inputs and methodologies behind each scenario and be able to participate and attend hearings to understand the decisions driving approval of the final capital plan and revenue requirement.
Budget and rate-making	Approves a yearly budget for PREPA that aligns with PREPA's Fiscal Plan and thus should align with revenue requirements and expenditures.	Authorize rates, except those approved under a plan of adjustment, (either formulaic or on an expedited manner) which align with the budget as certified by the Oversight Board.
Utility debt	Approves restructuring of existing debt through the Plan of Adjustment for PREPA.	No authority
Liquidity management	Oversees liquidity management in the energy system, to ensure that consistent and quality energy service to customers is not disrupted.	No authority
Title III	As the representative of PREPA in Title III, the Oversight Board has the exclusive right to file a Plan of Adjustment, which will contain any transformation-related agreements.	No authority
Transition to Privately Managed Operations	Approves any operator that engages with PREPA (e.g., T&D and generational operators). After the operators have been installed, the Oversight Board will continue to ensure compliance with PROMESA and the energy sector transformation objectives. The interaction between PREPA, the operators, and the Oversight Board will be determined at a later date.	Issues Energy Compliance Certificate and approves the following: performance metrics, rate orders (when applicable), System Operation Principles, System Remediation Plan, Integrated Resource Plan ("IRP"), among others.
Other	Track PREB's actions around distributed generation, net metering, and CILT to ensure the regulator is providing proper oversight over these critical topics.	Continues to exercise duties and responsibilities (e.g., addressing distributed generation, net metering, and CILT) as outlined in its enabling laws, except when doing so is inconsistent with the powers and authorities delegated to the Oversight Board under PROMESA.

Structural elements to ensure a best-in-class regulatory agency

Although administratively located within the Puerto Rico Public Service Regulatory Board (PSRB), PREB's decision-making process should not be subject to direct or indirect review by other government entities, except for any review under applicable administrative procedure rules or with respect to issues that are covered by a federal statute such as PROMESA. Staff involved in substantive decision-making should be kept separate and independent from the PSRB and be fully dedicated to matters within PREB's jurisdiction and purview. PREB may, on an annual basis, provide funds to the PSRB to cover administrative and other operational costs, however, PREB's resources should be kept separate and shall not be controlled or placed under the direction of the PSRB.

There are five key structural elements that will ensure PREB is a best-in-class regulatory agency:

- **Governance:** It is imperative that PREB's governance structure enable independent, quick and robust decision-making. In line with best practices for regulatory commissions (e.g., California Public Utilities Commission, Hawaii Public Utilities Commission, New York Public Services Commission), PREB is headed by five commissioners who serve staggered six-year terms. The commissioners are appointed based on their technical, professional and/or academic credentials, with potential candidates identified and appointed through a candidate list developed by an external recruitment firm. The commissioners should be supported in their oversight role by professional civil servant staff that has utility expertise.
- **Independent ratepayer advocate:** All commission decisions in adjudicatory proceedings must comply with applicable requirements of administrative procedure. Separate from the regulator, there shall be an independent ratepayer advocate, a role currently filled by the *Oficina Independiente de Protección al Consumidor* (OIPC). OIPC should be well-funded so that it has the resources to meet its responsibilities. Currently, PREB transfers 10% of its

budget to OIPC; as priorities evolve and the need for a robust consumer advocate increases, the Government may – with the approval of the Oversight Board – provide OIPC with additional funding.

- *Employee structure:* Presently, all 23 of PREB's employees are considered trust employees, meaning PREB's organizational structure fails to comply with Act 17, which requires PREB to achieve an employee structure wherein trust employees comprise no more than 25% of employees.¹⁹⁵ Moreover, the 2020 Fiscal Plan required PREB to further reduce this amount to no more than 15% by June 30, 2021 and 10% by June 30, 2022.¹⁹⁶ On November 23, 2020, the Oversight Board partially approved a budget reprogramming request submitted by PREB to fund the creation of 22 civil servant positions and maintain existing 7 trust positions¹⁹⁷. While the structure proposed by PREB would have allowed it to achieve the Act 17 target of no more than 25% trust employees, PREB would still fall short of the 15% trust employee target by June 30, 2021 outlined in the 2020 Certified Fiscal Plan. Accordingly, no later than December 31, 2021, PREB must reduce the number of trust employees to no more than 15% of total employees, with a further reduction to no more than 10% trust employees by June 30, 2022.¹⁹⁸

During and after the energy sector reform process, PREB must have enough staff to effectively undertake its duties and responsibilities in a timely and professional manner. The selection, hiring, and management of PREB's staff must not be subject to review or approval by any other entity of the Executive or Legislative Branch.

- *Budget:* PREB's substantive independence must be supported by financial independence. Under current law, PREB's yearly budget is set at \$20 million and collected through charges assessed on certified energy companies.¹⁹⁹ To provide for a steady and predictable funding source, PREB's enabling act must be amended to provide that PREB's budget shall be funded entirely through rates, as part of the revenue requirement used to determine energy rates. PREB's funds are then collected by the T&D operator through customer bills and periodically remitted to PREB. This funding mechanism is consistent with the mechanisms used to fund peer mainland regulators. Providing for an independent and unencumbered source of income for PREB helps create the conditions to protect ratepayer interests, increase transparency, and reduce system costs. However, the Government has not yet complied with this requirement and has not ensured a steady and predictable source of funding to PREB. Instead, PREB is currently being funded through fees levied on energy companies certified by PREB to provide energy services in Puerto Rico.

While the Oversight Board is in existence it can ensure PREB's budget through its budgetary powers. However, moving forward, PREB's budget and funding must be kept separate and independent from the Commonwealth budget or the budget of any other Commonwealth agency, entity, or instrumentality, and neither the Executive nor the Legislative branches should have authority to modify PREB's budget or reapportion any of PREB's funds without PREB's prior consent. PREB is subject to periodic reviews from relevant authorities for use of public funds, which is consistent with all other Government agencies in Puerto Rico.

- *Transparency:* To achieve best-in-class status as an energy system, transparency is an indispensable factor. PREB must ensure that proactive transparency permeates relevant energy operations, while being diligent in excluding confidential information such as customer data and operational details that would increase cyber or risk vulnerabilities.

¹⁹⁵ "Trust employees" includes any employees that are related to political appointments, non-civil service appointments, etc.

¹⁹⁶ To show that this has been completed, PREB needs to submit an organization chart showing the split of employees (civil servant vs. trust) no later than the end of Q1 of FY2021. However, PREB has not yet complied with this requirement

¹⁹⁷ Approved for remaining 8 months of fiscal year; partially approved medical insurance.

¹⁹⁸ Relevant milestones and deadlines are shown in *Section 10.3*

¹⁹⁹ Amount in line with other jurisdictions; the Hawaii Public Utilities Commission had revenues of \$19 million in FY2017 to serve a population of 1.4 million

Transparency practices may include making information publicly accessible, maintaining quick and efficient decision-making, and holding public events when appropriate in order to consider public opinion. Additionally, PREB must uphold transparency in its own financials and operations, including disclosing how it utilizes its annual budget.

10.2.2 Vision and structure for an energy system operator

As described above, private operators for T&D and generation operations will be responsible for executing Puerto Rico's energy system modernization strategy as well as assisting with the allocation of related federal funding. Each private operator's overall objective will be to improve service quality and deliver reliable service at just and reasonable prices. As such, a private operator will be motivated to deliver financial and operational performance improvements across six dimensions:

- **Reduce costs by introducing experienced personnel.** A private operator would be incentivized to reduce PREPA's dependency on outsourced contracts by insourcing activities, empowering the local labor force, and potentially achieving economies of scale.
- **Upgrade technology.** While PREPA has limited access and experience with industry-standard technology, a private operator would be incentivized to deploy modern grid technologies, digital capabilities, and infrastructure to significantly enhance operational efficiency, thus lowering O&M costs and customer rates over time through better asset utilization.
- **Improve processes and procedures.** Drawing on operational expertise, a private operator would be incentivized to streamline and standardize critical management processes and implement operational efficiencies (e.g., processes such as procurement, contract management, maintenance). A private operator can also leverage experience in customer service to improve PREPA's responsiveness to customer needs and expectations.
- **Limit political interference.** A private operator's decisions would be subject to independent regulatory oversight, but free of political interference. This would lead to the adoption of standard industry practice where experienced utility operators make operational decisions with oversight from an independent regulator (e.g., investment decisions made based on overall benefit to the system, instead of short-term political gains).
- **Effective and efficient capital delivery.** A private operator would be incentivized to establish the tools and processes critical to improving PREPA's capital project management. This will be key to unlocking the federal funding required for grid modernization and generation improvements, which in turn will aid PREPA in strengthening grid resilience and making its generation fleet future proof.
- **Renewable energy generation and transmission.** A private operator would assist with and enable the transition to a clean, reliable, and sustainable energy sector. This shall include renewable energy procurement, renewable energy program management, T&D system modernization, and renewable generation scheduling and dispatch. These efforts are required to meet the goals set up by Act 17, which mandates that Puerto Rico should obtain 40% of its electricity from renewable resources by 2025, 60% by 2040, and 100% by 2050.

Energy Sector Reorganization

To achieve Puerto Rico's energy system transformation, a change in PREPA's historical roles and responsibilities and their reassignment through multiple entities is imperative. The first step in this restructuring process was taken with the enactment of Act 57-2014, which established the Island's energy regulator, PREB. PREB's establishment eliminated PREPA's prior authority to self-regulation and installed those regulatory and oversight responsibilities within PREB. In

Puerto Rico's transformed energy system, those regulatory roles and responsibilities remain at PREB.

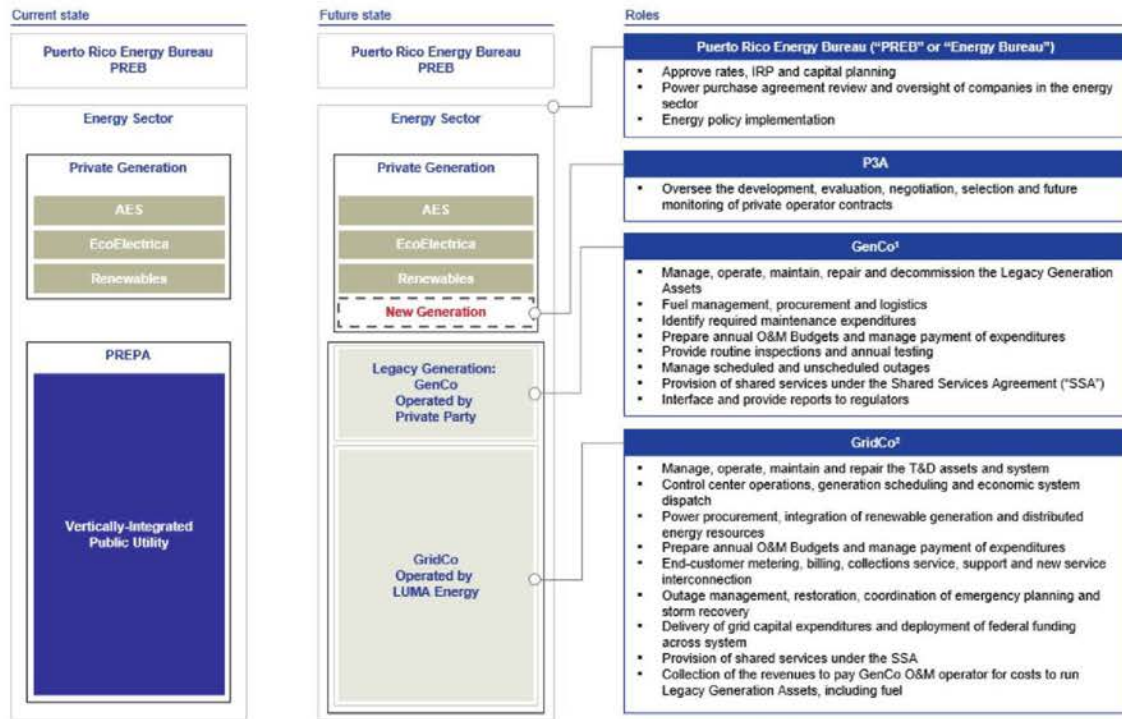
PREPA's Certified 2020 Fiscal Plan required PREPA's vertically integrated operations to be, as mandated by law, disaggregated into Generation and T&D utility functions – GenCo and GridCo, respectively. GridCo (which comprises transmission and distribution, customer service and administrative functions, operated and maintained by LUMA Energy, LLC or “LUMA”) and GenCo (which comprises existing PREPA-owned generation resources that are to be operated and maintained by one or more private operators until their retirement, as mandated by PREPA's approved Integrated Resource Plan).²⁰⁰ Besides the selection of LUMA as the T&D operator, the Island's transformed energy sector also envisions GenCo being responsible for, among other activities, the operation and maintenance of existing PREPA-owned generation resources, environmental compliance, safety and plant retirement and decommissioning. Additionally, GenCo will be responsible for working closely with LUMA to ensure appropriate short-, mid- and long-term system planning and timely and efficient execution of system-wide capital improvements.

Finally, PREPA's existing day-to-day roles and responsibilities over the operation of the energy system, deployment of federally and non-federally funded capital investments, short medium, and long-term system planning and energy sector oversight are expected to be reduced over time as such roles and responsibilities are taken up by the relevant Government agencies and private operators.²⁰¹

²⁰⁰ See Section 1.8 of the Puerto Rico Energy Public Policy Act; Act 17-2019

²⁰¹ See Section 1.7 of Act 17-2019, which states that “the Government of Puerto Rico, by itself or through the Authority or another public corporation affiliated to the Authority, shall maintain ownership of the transmission and distribution assets and may maintain ownership of the legacy power generation assets.” See Section 1.8(b) of Act 17-2019 which also provides that PREPA shall only “retain personnel as are necessary to fulfill its responsibility as a Partnering Government Entity, as such term is defined in Act No. 29-2009, of assisting the Public-Private Partnership Authority in overseeing the Contractor's performance of the Partnership Contract and compliance with the performance-based metrics set forth therein.” Pursuant to the LUMA agreement, PREPA delegated any duties with respect to overseeing LUMA's performance to the P3A

EXHIBIT 60: ENERGY SECTOR TRANSFORMATION – CURRENT AND FUTURE STATE



1. GenCo refers to the wholly-owned subsidiary of PREPA who would obtain ownership of the Legacy Generation Assets after a potential reorganization of PREPA.
2. GridCo refers to PREPA, in its capacity as owner of the T&D assets.

System modernization

In September 2017, Puerto Rico's electric system was completely devastated by the landfall of Hurricanes Irma and María, resulting in the longest electrical blackout in modern U.S. history. In efforts to mitigate the economic, fiscal, and social impacts of future storms, FEMA and the Government agreed to a fixed cost estimate of \$10.7 billion to repair the electricity system in Puerto Rico (see *Exhibit 61* below). Of those \$10.7 billion, \$9.7 billion would be provided by FEMA, with the remaining \$1 billion to be covered by PREPA through own funds and/or available CDBG funding.

EXHIBIT 61: PREPA ASSET CATEGORIES AND COST ESTIMATES

Asset category	Eligible cost, \$
Building Assets	125,088,362.54
Transmission Assets	2,642,131,654.47
Substation Assets	781,890,093.70
Telecommunications and IT	685,928,720.98
Generation Assets	108,927,715.08
Distribution Assets	5,499,837,404.90
Water Assets	860,926,275.87
Total Eligible Costs from FEMA	10,704,730,227.54

Transmission & Distribution Modernization

Approximately \$8.1 billion (76%) in FEMA reconstruction funds are destined for Transmission & Distribution Assets²⁰², which include thousands of miles of transmission and distribution lines. The remaining 24% is destined to Hydro Assets \$860 million (9%)²⁰³ Substation Assets \$782 million (7%)²⁰⁴, Telecommunications Assets \$686 million (6%)²⁰⁵, Building Assets \$125 million (1%)²⁰⁶, and Generation Assets \$108 million (1%).²⁰⁷ After the transition to LUMA has been completed, LUMA will be responsible for implementing the modernization of the T&D system.

Generation Assets Modernization

As directed by the PREB, and as required under Act-57, PREPA prepared an IRP intended to consider all reasonable resources to satisfy the demand for electrical services over a twenty-year planning horizon. The IRP as well as Act 82-2010, as amended by Act 17, directs PREPA to procure Renewable Energy Resources in accordance with the following milestones relative to the aggregate percentage of generation supplying its system: 20% by 2022, 40% by 2025, 60% by 2040 and 100% by 2050. On February 22, 2021, PREPA released RFP No. 112648 for the procurement of 1,000 MW of renewable energy resources capacity and 500 MW of energy storage resource capacity. This marks an important first step for Puerto Rico and its journey towards delivering clean, sustainable, and reliable energy and will accelerate the deployment of renewable generation sources. This RFP represents the first of six RFPs to procure a total of 3,750 MW renewable energy resources and 1,500 MW of energy storage resources during the next 3 years. Already, on February 26, 2021, the Oversight Board approved two (2) PPOAs to deliver 150MW out of the 1000 MW, to further accelerate the transition towards renewable resources.

EXHIBIT 62: YEARLY INCREMENTAL RENEWABLE GENERATION CAPACITY PROCURED AND ADDED BASED ON PREB'S GUIDANCE

PREB guidance for procurement of renewable generation and battery storage capacity

✓ Completed

RFP target release date	Solar PV or equivalent other energy, MW		4-hr. battery storage equivalent, MW		Tranche
	Minimum	Cumulative	Minimum	Cumulative	
Feb. 2021 ¹	1,000	1,000	500	500	1 ✓
Jun. 2021	500	1,500	250	750	2
Dec. 2021	500	2,000	250	1,000	3
Jun. 2022	500	2,500	250	1,250	4
Dec. 2022	500	3,000	125	1,375	5
Jun. 2023	750	3,750	125	1,500	6

1: Original date was Dec. 2020, but has been updated to reflect the current review process (RFP 112648 was released on February 22, 2021).
SOURCE: PREB

²⁰² Transmission and Distribution assets include the following: approximately 2,491 circuit miles of overhead transmission lines, 37 miles of underground 115kV cable, 63 miles of underground 38kV cable, 22.59 miles of submarine 38Kv cable to the islands of Vieques y Culebra, 708 access roads, 1,229 distribution feeders including 182,985 transformers and 16,800 miles of overhead and underground line, 342,569 each of Streetlights with an estimate of total population of 489,385 streetlights Island-wide, Poles and power line hardware

²⁰³ The Water Assets consist of Hydroelectric Plants, Dams, Irrigation Channels, and Water Conveyance infrastructure

²⁰⁴ Substation Assets include 392 substations and Transmission Centers located in 292 facilities

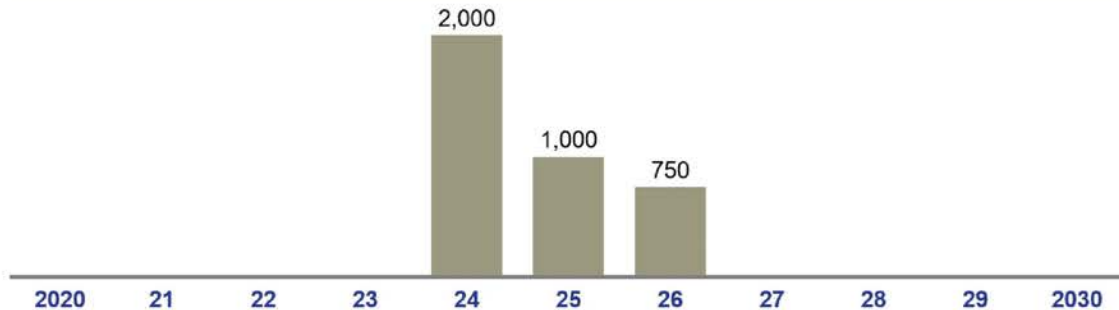
²⁰⁵ Telecommunication Assets consist of telecom facilities, communication hardware, software, information technology (IT) and other peripheral elements

²⁰⁶ Building Assets consist of 134 buildings throughout seven regional sectors on the Island

²⁰⁷ The Generation Assets consist of 12 power plants that generate electricity through fossil fuel. Nine power plants are included in this claim: Cambalache, Aguirre, Palo Seco, San Juan, Yabucoa, Mayaguez, Vega Baja, Dagua, and Jobos

EXHIBIT 63: PROJECTED INSTALLATION TIMELINE OF THE RENEWABLE GENERATION CAPACITY ORDERED BY PREB

Projected installation timeline of the renewable generation capacity ordered by PREB, in MW



1 Assumes RFP process takes two months, the PPOA finalization process takes one month, construction begins eight months after the PPOA approval, and commercial operations begin 24 months after construction begins

Role of operators

PREPA's existing operations will be split into GridCo (comprising T&D and customer service functions) and GenCo (comprising PREPA's existing generation assets). GridCo and GenCo are to be privately operated by professional entities selected through a competitive process under the supervision of the P3A. LUMA has been selected and has entered into an agreement to manage GridCo, while the process for identifying one or more operators for GenCo is currently underway. As mentioned before, the transition to private, professional operators is expected to improve quality of services, bring cutting-edge knowledge and expertise, improved efficiency, ensure compliance with applicable laws, and promote long-term sustainable planning, among others.

In order to achieve a reliable and modern energy system, PREPA must maintain the minimum levels of working capital needed to ensure all necessary and approved operational and capital investment expenditures are made on time. To that end, PREPA must create and fund various operational reserve accounts to be used by PREPA, LUMA and any additional private operators to fund the day-to-day operations of the energy system, ensure capital availability for maintenance and improvement projects, included FEMA-funded projects, and safeguard the financial sustainability of the system.

Specifically, no later than 10 business days prior to June 1, 2021, PREPA shall establish and fund one or more such operational reserve accounts, which accounts shall be consistent with the requirements in the LUMA Energy operations and maintenance agreement (OMA). PREPA and/or the Government must deposit in such accounts a total sum of approximately \$1.0 billion, of which a substantial portion of approximately \$500 to 750 million shall be funded through an equity contribution from the Commonwealth and the remaining \$250 to 500 million shall be funded from PREPA's existing cash reserves. The funding deposited in these accounts shall be used exclusively for the maintenance and operation of the transmission and distribution system and the execution of capital improvement projects, including FEMA-funded projects, as such functions are described and contemplated in the LUMA Energy OMA.

Transmission & Distribution

On June 22, 2020, the P3A, PREPA and LUMA signed a 15-year OMA for the T&D system. Under the OMA, LUMA is responsible for, among other activities, the operation and maintenance of the transmission and distribution assets and system, control center operations, generation scheduling and dispatch, power procurement and integration of renewable generation and distributed energy resources, customer metering, billing and collections, regulatory and environmental compliance

delivery of grid-related capital expenditures and deployment of federal funding across the system. Full transfer of O&M responsibilities to LUMA is expected to take place by June 1, 2021.

Under the OMA with LUMA, LUMA shall interview and hire qualified PREPA employees, and shall grant priority to PREPA employees over other, equally qualified, candidates. Existing PREPA employees who are not selected by LUMA, may be eligible to continue employment at PREPA's generation operations (to the extent consistent with PREPA's 2021 Fiscal Plan and Budget and until such operations are transferred to one or more private operators), may be eligible to transfer to another Commonwealth entity (to the extent consistent with applicable law, the 2021 Fiscal Plan and Budgets for the Commonwealth or any other covered instrumentality to which such employees may transfer) or may be eligible to participate in an early retirement program (to the extent such program is developed and implemented by PREPA in a manner consistent with the PREPA 2021 Fiscal Plan).

Generation

On November 10, 2020, the P3A launched an RFP to select one or more private operators for PREPA's existing generation assets. The selected proponent(s) will be responsible for the operation and maintenance of existing generation assets until those assets are retired and decommissioned in accordance with PREB-approved integrated resource plan (IRP). Additionally, the selected proponent(s) will be responsible for, among others, environmental compliance and safety, and fuel management. Currently, the P3A is expected to select the winning proponent(s) by August 2021 with full transfer of O&M responsibilities by the last quarter of the year.

EXHIBIT 64: CURRENT PREPA STRUCTURE

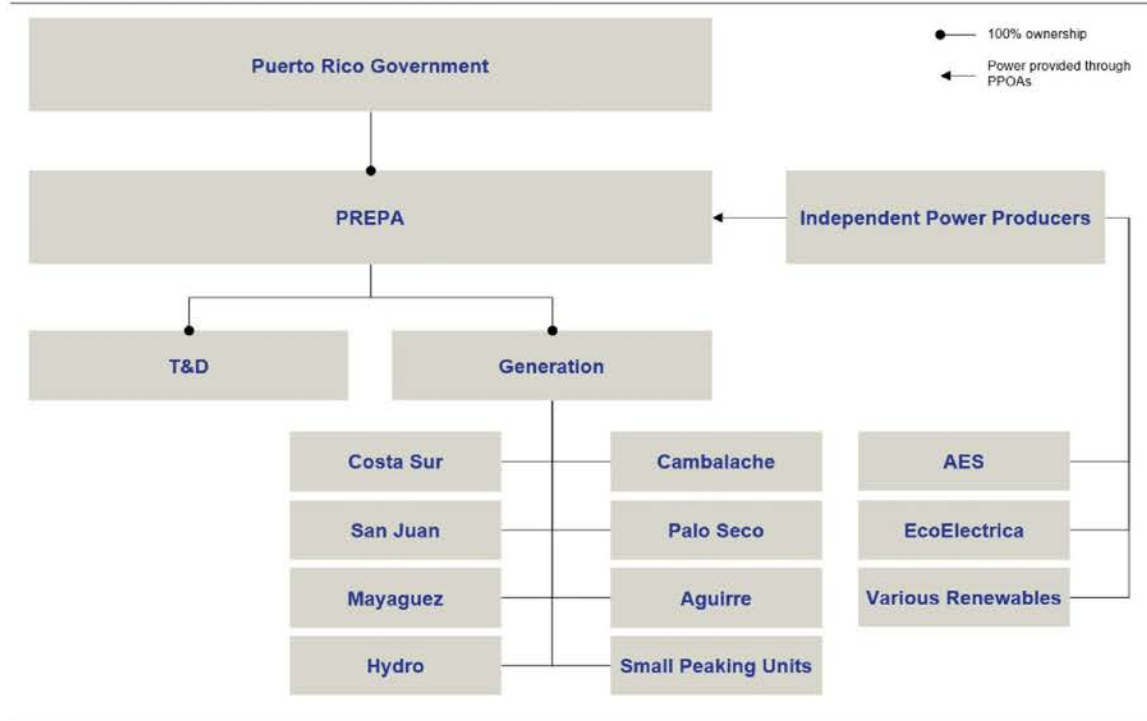
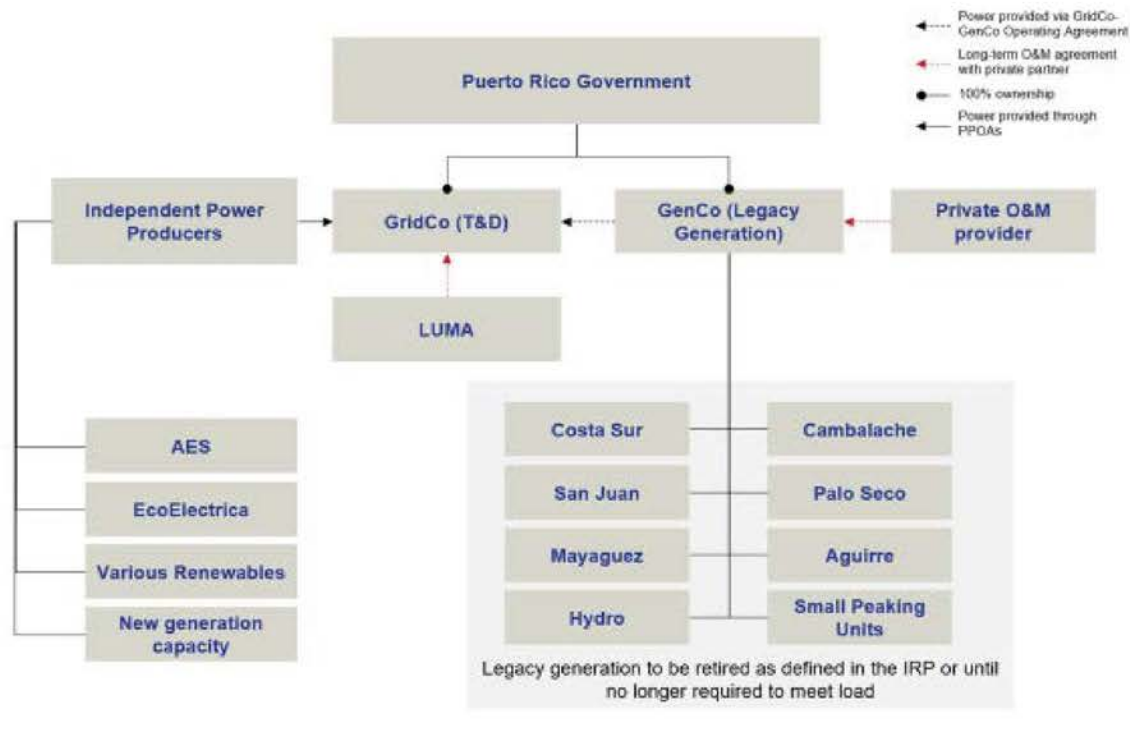


EXHIBIT 65: FUTURE PREPA STRUCTURE



Oversight

During the transformation of Puerto Rico's energy system²⁰⁸, i.e., while PREPA remains a covered instrumentality under PROMESA and until PREPA emerges from Title III, PREB will share responsibility for the regulation of the energy sector with the Oversight Board. During this time, the Oversight Board will have authority to approve revenue requirements and expenditures in PREPA's 2021 Fiscal Plan, which should be informed by PREPA's IRP. Additionally, the Oversight Board has the authority to approve a yearly budget and restructure PREPA's existing debt through a Plan of Adjustment and oversee liquidity management. PREB, in turn, will have authority to approve PREPA's IRP, authorize rates that align with PREPA's budget, and will continue to exercise its duties and responsibilities as outlined in its enabling laws, i.e., Act 57-2014 (e.g., addressing net metering, distributed generation, and CILT). Related to the transition of the T&D system and generation to private operators, PREB has the authority to approve performance metrics, rate orders (when applicable), System Operations Principles, the System Remediation Plan, as well as the IRP developed by the private operator. At the same time, the Oversight Board approved any private operator that engages with PREPA, and – after the operator has been installed – ensures compliance with PROMESA and the energy sector transformation objectives.

Once the transformation has been completed and PREPA has emerged from Title III, oversight responsibility in Puerto Rico's transformed energy system lies with PREB and the P3A.²⁰⁹ PREB retains its roles and responsibilities under Act 57-2014, which include approving of energy rates, integrated resource planning (IRP), capital planning, reviewing of proposed power purchase

²⁰⁸ Stated above in this section

²⁰⁹ The Oversight Board will also retain its power and duties under PROMESA with respect to PREPA as long as PREPA is a covered territorial instrumentality

agreements and oversight of companies in the energy sector, and the implementation of the Commonwealth's energy policy.

On the other hand, the P3A, as Administrator, is responsible for overseeing the development, evaluation, negotiation, selection and future monitoring of private operator contracts. To fully comply with their mandate, the P3A must build up its capabilities in order to assume their role in the transformation process of the energy system. As such, the P3A must develop a plan to develop the organizational structure needed to act as Administrator, build its resources, including the hiring of professional, experienced civil servants, with an aim at reducing trust positions within the Administrator division of the P3A to no more than 10%. Further detail on the timeline for achieving this organizational build-up is provided in *Exhibit 67*.

Energy sector debt restructuring

As of May 2017, PREPA had \$9.25 billion of outstanding bond and other debt obligations, and an unsustainable repayment schedule; PREPA would have had to repay approximately \$4.5 billion of debt service obligations between FY2019 and FY2023. PREPA's unsustainable capital structure reflects persistent operating deficits, resulting from overly low base rates and high operating costs. As long as PREPA remains in bankruptcy, it poses a risk to suppliers and partners, potentially increasing costs and delaying progress in rebuilding after major catastrophic events (e.g., hurricanes, earthquakes, COVID-19).

To restructure PREPA's debt, a debt restructuring agreement among a group of PREPA creditors, the Oversight Board, the Government, and PREPA is in progress. However, as a result of the uncertain and unpredictable effects of COVID-19 on PREPA and its customers, the Oversight Board requested additional time from the court to assess the situation. PREPA's Restructuring Support Agreement remains in effect and has not been terminated by the Oversight Board, the Government, PREPA, or PREPA's creditors.

10.3 Implementation and enforcement of power sector reform

To achieve 2021 Fiscal Plan savings projections, several reforms to the power sector must be implemented immediately. Several of those measures recommended in earlier Fiscal Plans already have been completed and are listed in *Exhibit 66*.

EXHIBIT 66: COMPLETED MILESTONES FOR POWER SECTOR REFORM

Area of focus	Action item	Responsible party	Completed
Implement regulatory reform	Provide interim feedback on PREPA's Integrated Resource Plan (IRP)	PREB	Completed
	Remove CW government approval needed for PREB staff appointments	CW government	Completed
	Revise charter legislation to provide dedicated funding for power sector regulation that provides regulator with annual budget of \$20 million in line with benchmark	CW government	Completed ¹
	Appoint the remaining PREB commissioner to serve staggered six-year terms	PREB	Completed
	Increase number of PREB staff in line with appropriate benchmarks	PREB	Completed
	Approve IRP	PREB	Completed
Transition to private operators	Perform market sounding to collect feedback on interests and concerns from interested parties for generation asset privatization	P3 Authority / Oversight Board	Completed
	Select a winning proponent to manage and operate PREPA's T&D system	P3 Authority	Completed
	Prepare for and launch RFQ for the selection of a proponent for PREPA's generation assets	P3 Authority	Completed
	Prepare for and launch RFP for the selection of a proponent for PREPA's generation assets	P3 Authority	Completed

¹ Partially completed. Legislation was adopted (Act No. 17), providing \$20 million in funding. However, the funding was not from a dedicated source; PREB will need to confirm completion in the near future.

Exhibit 67 describes the additional reforms required to ensure the transformation of the electricity sector and compliance with the 2021 Fiscal Plan, and to meet the 2021 Fiscal Plan growth and revenue targets. Several of these reforms were outlined in the June 2019 PREPA Fiscal Plan and remain incomplete (demarcated with *).

EXHIBIT 67: PENDING MILESTONES FOR POWER SECTOR REFORM

Area of focus	Action item	Responsible party	Deadline
Implement regulatory reform	Create an oversight and monitoring division for LUMA operation and management agreement and other P3A deals, with experienced career civil servants and minimal trust employees	P3 Authority	June 1, 2021
	Provide FOMB with staffing plan and organizational chart outlining the monitoring and compliance division created within P3A and required funding sources.	P3 Authority/ AAFAF/ Legislature	June 1, 2021
	Amend PREB enabling act (Act 57-2014) to stipulate that PREB's budget will be funded through rates	Governor/ Legislature	December 31, 2021
	Submit implementation plan for achieving a workforce with no more than 10% trust employees.	PREB	June 30, 2021
	Reduce the percentage of trust employees to 15% of total employees	PREB	June 30, 2021
	Reduce the percentage of trust employees to 10% of total employees	PREB	June 30, 2022
	Conclude and publish a study regarding an optimal CILT structure and submit a recommendation to the Governor and the Legislature.*	PREB	September 1, 2021 ¹
	Develop a CILT process by which municipalities pay for electricity consumption not covered by CILT, and are able to file complaints related to CILT*	PREB	December 1, 2021
Transition to private operators	Select a winning proponent to manage and operate PREPA's existing generation assets	P3 Authority	First half of FY22
	Implement approved IRP and grid modernization plan to ensure a modernized, resilient, and reliable grid	PREPA	In process
Restructure legacy debt obligations	Confirm Title III plan of adjustment	FOMB	To be determined
	Implement PREPA plan of adjustment	PREPA	To be determined

* Milestones also recommended in June 2019 Fiscal Plan

¹ This is revised from the original deadline in Act 17-2019, which stipulates that, "In view of this new model for an Electrical System, on or before December 31, 2019, the Energy Bureau shall conduct a study on the implementation, effectiveness, cost-benefit, reasonableness, and economic impact of the contribution in lieu of taxes (CILT) to determine the need and convenience, if any, of reforming this mechanism and the subsidies."

Chapter 11. Infrastructure reform

The transportation sector is essential for both economic and social development with transportation systems playing a critical role in facilitating the movement of goods and people. A well-performing system can increase workers' access to jobs and businesses' access to customers, unlocking the productive potential of residents and firms, thereby increasing economic output and inviting further private investment. Meanwhile, a poorly performing system can mire its residents in wasted time, inequitable access to jobs and opportunities, fractured communities, and productivity losses, as can be observed in Puerto Rico.

Puerto Rico's transportation sector underperforms across a range of outcomes. Roads in Puerto Rico are crowded and unsafe, resulting in 80% more traffic-related fatalities than the U.S. average.²¹⁰ Among U.S. cities, San Juan has the seventh-longest average commute at 31.2 minutes.²¹¹ Drivers lose 58 hours each year in traffic²¹² at a cost of \$1,274 per driver and \$400 million to the city.²¹³ Puerto Rico's roads suffer from poor conditions—only 4% of the Island's non-interstate highways are in good condition, compared to the U.S. median of 57%.²¹⁴ Furthermore, in 2020 the Highways and Transportation Authority (HTA) reported to FHWA that 12% of Puerto Rico's lane miles are in "poor" condition, thus exceeding the maximum of 5% of

²¹⁰ "Highway Statistics 2019." Office of Highway Policy Information of the U.S. Department of Transportation Federal Highway Administration. Last updated September 30, 2020

²¹¹ "150 Best Places to Live in the U.S. in 2020-21." U.S. News and World Report. Accessed 21 April 2021

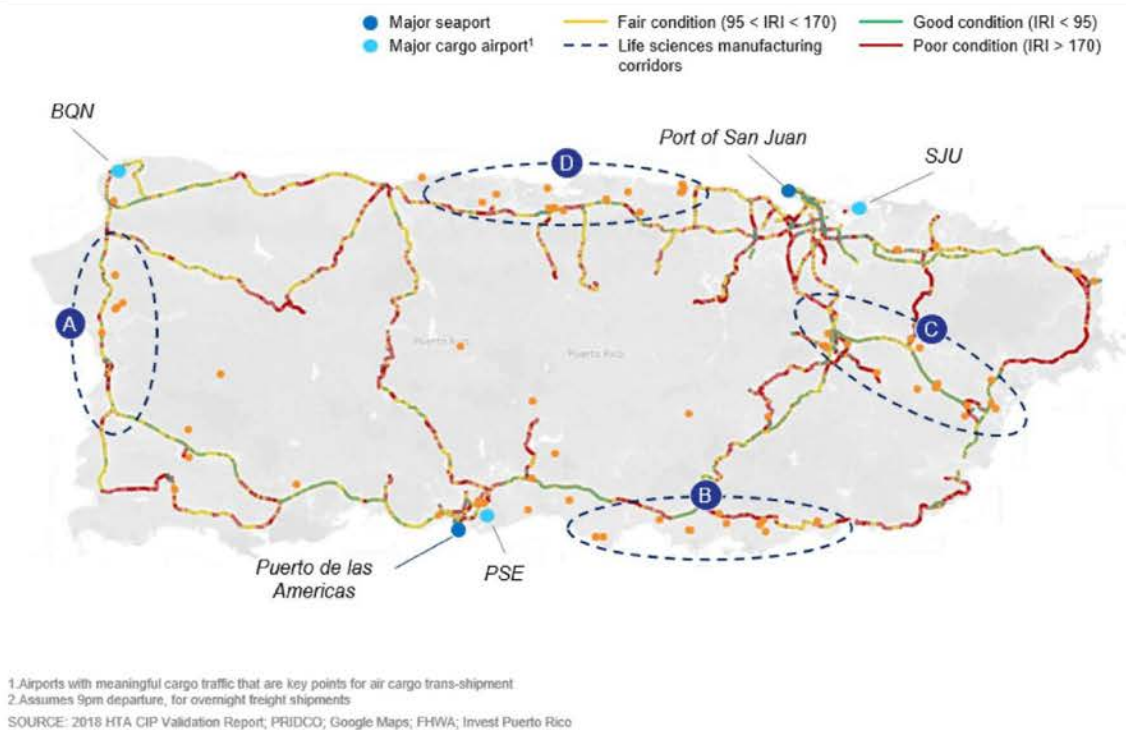
²¹² "2019 Urban Mobility Report." The Texas A&M Transportation Institute. August 2019

²¹³ Costs include lost productivity, increased freight movements costs, higher operating costs and decreased reliability. For more information, see "Revised Departmental Guidance on Valuation of Travel Time in Economic Analysis." Memo from Acting Assistant Secretary of Transportation Policy Vinn White to Secretarial Officers and Modal Administrators, September 27, 2016

²¹⁴ Ibid "Highway Statistics 2019"

lane miles in “poor” state for pavement conditions on the Interstate System²¹⁵ as required by federal law.²¹⁶ As a result, for a second consecutive year, FHWA imposed a penalty and constraints on some portion of its federal allocated funds.²¹⁷ Moreover, the road safety and congestion are not the only challenges faced by the transit sector.

EXHIBIT 68: POOR ROAD SURFACE CONDITIONS MAKE IT DIFFICULT FOR LIFE SCIENCES MANUFACTURERS TO MOVE THEIR GOODS TO MARKET



The financial performance and sustainability of the transit sector also lags mainland peers. Tren Urbano’s (TU) transit farebox recovery ratio (share of expenses covered by fare revenues) is only 9%, compared to 26% for peer U.S. systems.²¹⁸ The percent of non-fare directly generated public transit revenue (as a percent of total transit revenue) in Puerto Rico is about half of the U.S. median.²¹⁹ Construction of TU took 75% longer than expected, delaying its opening by four years, and increasing project costs from \$1.5 billion to \$2.3 billion. A 2017 assessment after Hurricanes Irma and María found that more than 50% of the turnstiles (barriers) were not operational, 20% of the ticket vending machines were defective and non-compliant with Payment Card Industry Standards and used outdated software. TU has failed to fix these problems, despite federal funding being available to do so since 2012.

The ferry service is yet another example of suboptimal performance. For months, the Maritime Transportation Authority (ATM, by its Spanish acronym) has operated with two (2) or fewer of its fourteen (14) ferry boats to meet its service demand due to frequent breakdowns and, for several

²¹⁵ As defined by 23 USC 103(c)

²¹⁶ 23 USC 119(f)(1) and 23 CFR 490.315

²¹⁷ In a letter dated September 30, 2020, FHWA informed HTA the determination regarding pavement conditions in the Interstate System. After analyzing the 2019 Interstate System pavement condition data reported by HTA on the Highway Monitoring System, FHWA determined that (1) HTA did not meet the minimum level requirements for pavement condition on the Interstate System as required in 23 USC 119(f)(1) and 23 CFR 490.315 and (2) penalty under the provisions of the Interstate System Condition (23 USC 119 (f)(1) must be invoked pursuant to 23 CFR 490.317. As a result, HTA will have constraints on some portion of its allocated funds as per 23 CFR 490.31(e)

²¹⁸ “2019 data tables.” United States Department of Transportation Federal Transit Administration. Accessed April 21, 2021

²¹⁹ “2019 funding sources.” United States Department of Transportation Federal Transit Administration. Accessed April 21, 2021

years, has relied on leased ferry boats to supply services, thereby limiting its ability to invest in its ferry assets, worsening their condition and further forcing ATM to continue to rely on leased ferries. The Desirability and Convenience Study for the Puerto Rico Maritime Transportation Services PPP further highlights the issues concerning the ferry service. Chief among the challenges is the current state of facilities and vessels, which are in operation beyond their expected service life. Consequently, ferry services are subject to frequent cancellations and delays and increasing maintenance costs, forcing ATM to defer much needed maintenance for its vessels and facilities. The result is an unpredictable and unreliable ferry service that too often leaves the residents of Vieques and Culebra without access to basic goods and services (including access to medical services, given Vieques lacks on-Island hospital facilities), and prevents the Islands from realizing their full potential as world-class tourism destinations.

Given the complexity of managing an entire island's transportation infrastructure cost-effectively, the Government should implement a cohesive policy for the transportation system. The task at hand will result in a total reorganization of Puerto Rico's transportation infrastructure. Such effort would mainly revolve around the following key initiatives:

- 1. Restructuring transportation capabilities and organizational structures by allocating transportation assets into entities based on type of asset and/or transportation service (e.g., toll roads, non-toll roads, mass transit)** to achieve efficiencies in operational expenses and capital delivery while also paving the way for closer collaboration between different transportation entities
- 2. Creating an overreaching Transportation Policy Board** to ensure consistency in long-term planning strategies and priorities across all transportation assets management
- 3. Improving performance management** through the integration in public systems, performance-based contracts, better supervision, and leveraging private sector capabilities
- 4. Maximizing available funds through a more aggressive federal grants strategy and attracting private capital**

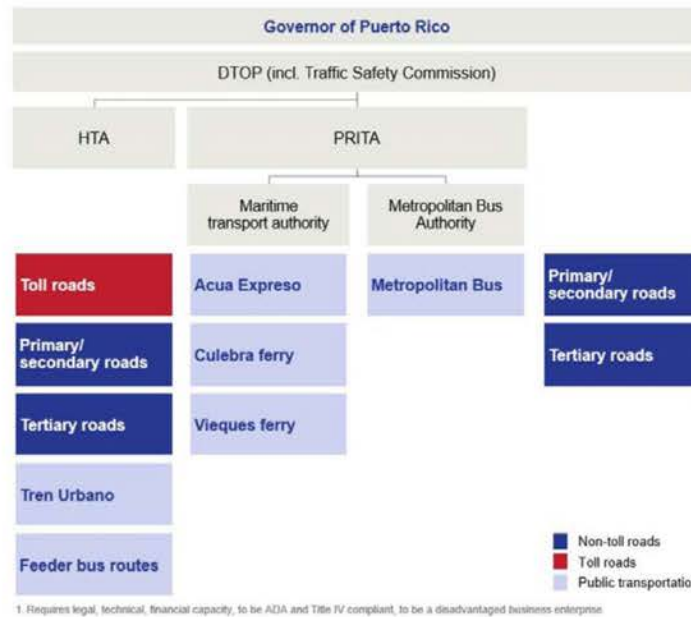
11.1 Current structure of Puerto Rico's transportation system

Individual modes of transportation with overlapping and fragmented ownership

The transportation system falls under the organizational structure of the Department of Transportation and Public Works (DTOP, by its Spanish acronym), which includes the Highways and Transportation Authority (HTA) and the Integrated Transit Authority (PRITA). PRITA is further divided into ATM and the Metropolitan Bus Authority (AMA, by its Spanish acronym).

Currently, asset ownership is fragmented across Puerto Rico's transportation entities. Non-tolled roads are split between HTA and DTOP. Bus routes are divided between HTA and AMA. The urban transit line sits within the highway authority (HTA), rather than the dedicated transit authority (PRITA).

EXHIBIT 69: CURRENT ALIGNMENT OF TRANSPORTATION ASSETS TYPES TO ENTITIES



Fragmentation across transportation modes inhibits efficient management of the transportation system by complicating budget distribution, priority-setting, and decision making. For instance, even though DTOP is responsible for ~96% of the road system's maintenance (excluding toll roads), HTA often performs such maintenance. HTA's operational and project delivery capacity is further strained due to also being responsible for over ~95% of the road system's construction projects (including toll roads). This mix of both tolled and non-tolled roads leaves HTA with limited resources to concentrate on the operation and maintenance of the toll roads and with a mix of private revenue streams (e.g., tolls and fines) and public funds (e.g., transfers from the Commonwealth) that complicates decision making concerning transportation public policy setting and implementation. As an example, HTA has not adjusted toll rates since 2005, despite increases in both congestion and inflation, toll roads have not been the subject of focused capital investments, and non-toll roads suffer from a backlog of maintenance projects such as toll fare adjustments and toll road capital projects.²²⁰ Furthermore, HTA is the federal grantee for PRITA, ATM, TU, and feeder bus routes, while AMA is its own FTA grantee.

The fragmented ownership of transit assets inhibits cross-modal coordination: TU, AMA, and the feeder bus networks do not have harmonized schedules that enable easy and efficient transfers between modes. This creates a negative user experience for riders and encourages commuters to travel via private vehicle rather than public transit, which in turn worsens the financial performance of transit systems and increases road congestion.²²¹ Puerto Rico, furthermore, receives about 90% of the federal funding for roads that could be expected based on its population size.²²² Despite this, agencies struggle to spend all the money available to them due to difficulties executing the backlog of projects.

²²⁰ In other states, by contrast, toll roads and non-toll roads are managed by independent, apolitical public entities (e.g., Florida Turnpike Enterprise, New Jersey Turnpike Authority) that can focus on maintaining their own financial sustainability

²²¹ Many U.S. cities, by contrast, have integrated transit authorities so all transit assets across modes coordinate schedules and payment methods, ensuring a seamless experience for customers and efficiency in delivering services. For example, Portland's TriMet system operates bus, light rail, heavy rail, and streetcar services under one network with a single payment system and harmonized schedules

²²² "Revenues Used By States For State-Administered Highways – 2018." Office of Highway and Policy Information of the United States Department of Transportation Federal Transit Administration. Last updated January 2020

EXHIBIT 70: TRANSPORTATION ASSET DISTRIBUTION ACROSS PUBLIC ENTITIES

	Assets	Managed by
HTA Toll Roads	<ul style="list-style-type: none"> 4 tollways: PR-53, 52, 66, 20 704 lane miles 	<ul style="list-style-type: none"> HTA responsible for construction, maintenance, and operations
Non-Toll Roads & Bridges	<ul style="list-style-type: none"> Primary: 3,005 lane miles <ul style="list-style-type: none"> Urban: 954 lane miles Non-urban: 2,051 lane miles Secondary: 2,304 lane miles Tertiary: 6,344 lane miles 	<ul style="list-style-type: none"> HTA manages a subset of primary, secondary, and tertiary roads, and is responsible for: <ul style="list-style-type: none"> Operation & maintenance of 753 lane miles Construction of 11,299 lane miles DTOP owns a subset of roads, but is only responsible for: <ul style="list-style-type: none"> Operation & maintenance of 10,547 lane miles Concessionaires are responsible for the construction, operation & maintenance of the remaining roads: <ul style="list-style-type: none"> Abertis manages 9 lane miles Metropistas manages 344 lane miles
Rail	<ul style="list-style-type: none"> Tren Urbano 	<ul style="list-style-type: none"> HTA, which was supposed to transfer the administration of this asset to PRITA, but the process stalled
Bus	<ul style="list-style-type: none"> 3 HTA feeder bus lines San Juan bus systems (30 routes) 	<ul style="list-style-type: none"> HTA manages the 3 Tren Urbano feeder bus lines. HTA was supposed to transfer to PRITA, but the process stalled AMA used to administer the San Juan bus system. However, it has recently transferred it to PRITA
Ferry	<ul style="list-style-type: none"> AcuaExpreso (San Juan) Culebra and Vieques (Fajardo) 	<ul style="list-style-type: none"> In process of transfer from MTA (Maritime Transportation Authority) to ATI/PRITA
Ports and airports	<ul style="list-style-type: none"> 9 ports 10 airports 	<ul style="list-style-type: none"> Port Authority manages both airports and ports (SJU is outsourced to Aerostar)

1 DTOP, Puerto Rico 2040 Island-wide Long Range Transportation Plan, 2013. Estimated ownership of system using HTA provided km in by functional road class.

Historically, Puerto Rico has not maximized its funding potential

Currently, AMA has federal grantee status. Meanwhile, PRITA is a subgrantee to the Puerto Rico Ports Authority (PRPA) and HTA. This scenario is far from ideal for PRITA to carry out its mission to operate and invest in Puerto Rico's bus, ferry, and rail transportation services. Furthermore, the proportional allocation of federal funds to transportation is a separate challenge itself. Puerto Rico's 3.1 million residents represent 1.0% of the United States population, and yet, Puerto Rico rarely sees a proportional amount of federal funding from large transportation-related grants programs. HTA, for instance, received zero new discretionary grants in FY2020. If Puerto Rico received discretionary grants²²³ proportional to its population, agencies would have an additional \$1.5 billion available for strategically important, non-State of Good Repair (SOGR) projects over the next 30 years, granted that the Government seek a holistic grantee structure and federal funding strategy.

Moreover, to generate this type of capital spending, the Commonwealth and its corporations will need to maximize investments in Puerto Rico's transportation sector by ensuring access to all available federal and private funding. To achieve this, PRITA should successfully obtain grantee status, which is pivotal for maximizing federal funding opportunities and would pave the way to efficient multi-modal coordination.

Puerto Rico should explore further opportunities to leverage private capital via PPP projects. The Government should build on the success of the PR-22 and PR-5 PPP with Metropistas. Since 2011, Metropistas has contributed \$1.6 billion for the right to operate and collect tolls on PR-22 and PR-5. These funds have been used to reduce existing debt, improve road quality, and accelerate safety improvements.²²⁴ As a result, 99% of PR-22's pavement is in "good" or "fair" condition, compared to 86% for Puerto Rico's interstate system as a whole.²²⁵ Puerto Rico's PPP Authority

²²³ E.g., Capital Investment Grants, Better Utilizing Investments to Leverage Development (BUILD) grants, Infrastructure for Rebuilding America (INFRA) grants, Highways for Life (HfL) grants

²²⁴ "Project Profile: Puerto Rico PR-22 and PR-5 Lease." Center for Innovative Finance Support, United States Department of Transportation Federal Transit Administration. Accessed April 21, 2021

²²⁵ 2028 Puerto Rico Transportation Asset Management Plan, Final Revised as of October 8, 2019

should pursue a transportation-focused strategy to attract additional private funding to this sector. Puerto Rico should also leverage non-toll sources of revenue through innovative contract financial structures with its PPP concession-holders.

11.2 The future of Puerto Rico's transportation system

Reorganization of Puerto Rico's transportation assets and responsibilities into entities based on type of asset and/or transportation service

To achieve long-term financial stability and sustainability, Puerto Rico's transportation sector should be reorganized to ensure the best outcomes across different modes of transport. Under this proposed reorganization, HTA would operate as a standard toll road authority and oversee Puerto Rico's toll roads, DTOP would act as a standard department of transportation, with responsibility over non-tolled, non-municipal roads, and PRITA would fulfill its original intention as a unitary transit authority by managing and consolidating all transit assets on the Island (e.g., buses, ferries, Tren Urbano).²²⁶ The Ports Authority would continue to retain control over airports and ports. All relevant agencies should achieve federal grantee status as these new roles and responsibilities require.

Consistent with the reorganization described above, and with the 205(a) letter of January 29, 2021, the 2021 Fiscal Plan increases the HTA operating transfer to cover the full cost of non-toll assets, marking the first step towards the implementation of the Transportation Sector Reform. As a result, over FY2025-FY2051, the 2021 Fiscal Plan includes an average annual operating appropriation of ~\$133 million and capital appropriation of \$68 million per year on average. The amount of the annual operating transfer may be reduced in a proportionate amount should federal funding for non-toll assets appropriated to HTA increase.

The HTA operating transfer is intended to be used by HTA solely to fund costs associated to non-toll assets and is not available to be used for any other purposes, including funding costs and projects above and beyond those contemplated in HTA's Fiscal Plan.

EXHIBIT 71: PROPOSED ALIGNMENT OF ASSET TYPES TO ENTITIES

Non-toll roads authority	Toll roads authority (HTA)	Transit Authority (PRITA)
All non-toll roads	All toll roads	All bus routes
		Tren Urbano
		Ferry

The state of public transit infrastructure and management on the Island deserves special focus. Congestion is increasing in many metropolitan areas, implying additional delays for activities such as commuting. Traffic in congested urban areas is moving at the same speed that it did 100

²²⁶ There is an existing legislative precedent for this type of effort, as outlined under 23 L.P.R.A. § 11161. The enactment of PRITA was originally intended to integrate mass transit systems under one authority, thus relieving HTA from its responsibilities related to the Tren Urbano transit system

years ago on horse-drawn carriages.²²⁷ The San Juan metro area has 37,000 more households commuting by private vehicle than would be expected if mass-transit usage matched the U.S. average.²²⁸ As a result of these extra vehicle journeys, San Juan experiences two additional weeks of low air-quality days per year, compared to the U.S. average.²²⁹ Worse yet, NOx and PM2.5 emissions from vehicles are statistically associated with excess deaths in the local population.²³⁰ Hence, a reliable public transit option is extremely valuable to day-to-day activities of local residents. The current system suffers from limited availability, efficiency, route coordination, operational cohesiveness, and accessibility. These issues result in higher congestion and reduced mobility particularly for low-income residents who experience long commutes or are forced to invest in owning a vehicle.

Achieving an integration of the public transit systems and cohesive operations and investment strategies across modes will require the Government assume a proactive role. The Government should establish a unified transport system and although these initiatives would ideally be implemented by an integrated PRITA, their implementation can and should start today.

The transformation into an integrated transit system would mainly rely on the implementation of the following initiatives:

- **Integrate all transit assets under PRITA:** PRITA should be empowered to fulfill its original intention, and act as a unitary transit authority by managing all transit on the Island (e.g., all buses, ferries, Tren Urbano). To accomplish this, the Government should ensure PRITA achieves federal grantee status as necessary to take on these new roles and responsibilities (e.g., FTA grantee status).
- **Integrate all non-toll roads under DTOP:** DTOP should assume responsibility for construction and maintenance of non-toll roads from HTA. Doing so would better align sources of funding with entity mandates (i.e., public funds used for publicly-managed roads). This would require relevant personnel and capabilities also shift from HTA to DTOP to ensure DTOP can manage the full portfolio of non-toll roads.
- **Integration of public transit networks:** Existing public transit agencies of the San Juan metropolitan area should integrate their operations to maximize ridership by increasing both the legibility and usefulness of the system.²³¹ Example initiatives include:
 - Adoption of a single farecard for all transit networks
 - Harmonization of fares and schedules across TU, buses, and ferries
 - Design of a coordinated network of routes to increase accessibility and attractiveness of mass-transit alternatives
 - Redevelop areas surrounding major transit stations to maximize mobility and accessibility to goods and services
- **Coordination of public transit systems with private transport networks:** Public transit agencies should collaborate closely with private transport networks (e.g. Públicos,

²²⁷ The Geography of Transport Systems, 5th Edition, 2020 by Jean-Paul Rodrigue, Claude Comtois, and Brian Slack

²²⁸ 22% of San Juan metro area residents commute via carpool, walking, bicycling, or public transit, compared to 27% for the U.S. as a whole. Data.IO

²²⁹ Low air quality defined as AQI > 100; PR has 19 days per year to U.S. median of 4, as per the Department of Natural and Environmental Resources website

²³⁰ EPA estimates excess deaths per ton of emissions at 0.002 for NOx and 0.1 for PM2.5

²³¹ Oregon's TriMet system shows how this can work in practice. Like TU, TriMet is a relatively new transit system, having developed its light rail in the 1980s. TriMet consolidates all Portland-area transit assets into a single entity that coordinates route planning, scheduling, and payments. Riders use "Hop Fastpass," a smart fare card, to pay for their travel and can plan multi-modal trips using TriMet's website. This user-friendly system encourages high levels of ridership on the city's light rail and bus systems, saving the city \$150 million annually due to reduced traffic congestion. Finally, a major emphasis in TriMet's planning was to use transit to improve land use, leading to \$25 billion in new development near light rail stations

Transportation Network Companies).²³² By implementing a series of joint initiatives (e.g., fare integration, station re-design, schedule integration, multi-modal trip planning), public agencies and private network operators would be able to achieve increased service quality and increased ridership.

- **Improvement of curb management practices:** Public transit agencies should work with local municipal authorities to promote the adoption of innovative curb management practices (e.g., dynamic pricing for on-street parking, replacing on-street parking with drop-off zones). These practices would incentivize commuters to use public transit rather than private vehicles. They would also generate funds that could improve service quality in the communities they service (e.g., construct more and better bus shelters).

Overall, these initiatives would contribute to the decrease of average commute times for the residents of the San Juan metropolitan area, thus resulting in substantial labor productivity gains and other benefits to residents such as greater mobility, accessibility, and equity, while also reducing harmful vehicle emission, thus increasing the overall quality of life. At the same time, they would enable public transit networks to increase their ridership and their revenue, thus having a smaller need for subsidies from FTA or the Government. These measures should be led by agencies responsible for various assets (HTA, ATM, PRITA) until the transformation of PRITA into a true transit authority is complete, at which point PRITA should become the responsible party across assets.

Implementing these goals will require a concerted effort and continued engagement of a workforce, all collaborating towards a common goal. As an example, asset transfers between agencies should also consider the transfer of responsibilities and recurrent funding, in addition to the assets themselves. In order to apply lessons learned, the Government should perform an initial assessment of legal, Federal Transit Administration (FTA) and Transportation Asset Management Plan (TAMP) considerations. Once the assessment is completed, the Government should develop a program foundation to align on priorities, success metrics, measures, and a future state organizational structure (as reflected in *Exhibit 72*) to demonstrate progress. Thereafter, workstreams can be implemented and, along the path of implementation, optimization and innovation can take place after results have been assessed and new workstreams are established. Ultimately, the end goal is for rider experience to improve, and transit ridership and accessibility to increase. As part of the reorganization of assets and responsibilities into mode-specific entities, the Commonwealth should ensure that the entities meet all requirements to obtain federal grantee status.

Create an overarching Transportation Policy Board to guide multi-modal transportation strategy across the Island

The Commonwealth should create an independent Transportation Policy Board (“TPB”) to set and execute an Island-wide transportation strategy. The TPB would be empowered to, at a minimum,

1. Set long-term, cross-modal, strategic plans and investment priorities applicable to all transportation investments on the Island
2. Regularly review and report on execution against strategic plans, providing transparency and guidance on any corrective steps required
3. Coordinate the federal grants strategy for all transportation entities to harmonize the process and maximize opportunity and availability of federal funds

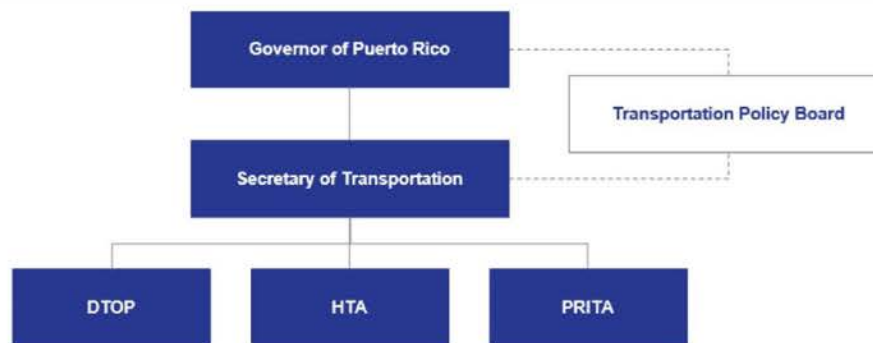
²³² Públicos and Transportation Network Companies carry ~50 million passengers per year, representing the vast majority (65%) of total transit rides in the San Juan metropolitan area. Puerto Rico Long Range Transportation Plan, December 2013

4. Develop and oversee the use of objective frameworks for project selection and project prioritization processes
5. Provide oversight and compliance check to both the pre-construction and capital delivery activities.

The proposed TPB would provide oversight and guidance for the transportation entities within the Government but would not seek to burden them with new regulations, leaving implementation of long-term strategic plans to each relevant entity.

The TPB should be comprised of 3 to 5 members, appointed by the Governor with the advice and consent of the Senate. Candidates should be selected from lists developed by professional recruitment firms and should comply with minimum knowledge and expertise requirements. To insulate TPB members from political pressure and ensure continuity and consistency in long-term planning, initial TPB member terms should be staggered with subsequent appointments being for a term of no less than five years. TPB members should also not be subject to at will removal, and should only be removed for cause.

EXHIBIT 72: PROPOSED RELATIONSHIP BETWEEN TRANSPORTATION POLICY BOARD AND OTHER TRANSPORTATION ENTITIES



Improve performance management through performance-based contracting and concessions with the private sector

Puerto Rico should better integrate private operators into public systems. At present, *públicos* and transportation network companies (“TNC”) operate broadly across Puerto Rico to satisfy excess demand for transportation beyond that provided by the public sector. There is limited coordination, however, between these private operators and the public networks. Similarly, private contractors execute much of the Island’s transportation construction without providing visibility into individual project performance. If managed well, the private sector can be a key partner in both operating transit systems and delivering capital projects efficiently and cost-effectively. As an example, the Maritime Transportation Services PPP with HMS Ferries LLC (“HMS”) is structured such that HMS prioritizes improved service quality and efficiency, thereby aligning the interests of private operators with those of Puerto Rico’s businesses and residents, who demand access to reliable and safe transportation services. Moreover, the management of private sector players is critical for transportation agencies to ensure that they can maximize available funds and mitigate risks, as shown through the improvements seen in PR-22 road condition as a result of the Metropistas PPP.²³³ Further, Puerto Rico’s transportation entities can get more value from their private-sector vendors through innovative contract design and improved vendor supervision. Moreover, PPPs are an additional tool to attract private investment.

²³³ At present, the Acts governing PRITA and HTA provide for the implementation of this measure per P.R. Laws tit. 9, § 2004a

Of the ten projects currently under consideration by the PPP Authority, none impact transportation.²³⁴ Greater coordination between transportation sector entities and the PPP Authority can enhance the potential of private funds being leveraged for transportation, specifically by identifying, developing, and structuring attractive projects, such as the long-term concession of the remaining toll roads. If Puerto Rico achieved the same amount of PPP investment per capita as Virginia, it would receive an influx of \$3.7 billion in private investment.²³⁵

In addition, the Government, and more specifically, relevant transportation entities, should systematically identify ancillary revenue opportunities (e.g., advertising, creating service plazas, renting out real estate to retailers). If Puerto Rico achieved a level of non-toll revenue similar to mainland peers such as Florida's Turnpike Enterprise and the North Texas Tollway Authority, HTA would realize an incremental \$12.7 million in annual revenues.²³⁶ As with PPP funding, this best-in-class example should serve not as a specific target, but as an indication of what is possible.

Maximize funding by ensuring all relevant entities have federal grantee status, adopting a more comprehensive federal grants strategy, and attracting private capital

The Government needs to maximize investments in Puerto Rico's transportation sector by ensuring access to all available federal and private funding are deployed. To achieve this, PRITA should successfully complete the FTA's process to obtain grantee status, which is pivotal for maximizing federal funding opportunities, reorganization of assets and management responsibilities, and would pave the way to efficient multi-modal coordination.

Puerto Rico would benefit from a holistic strategy to maximize funding flowing into its transportation network. The TPB would be well-situated to coordinate these efforts across transportation entities. By establishing an Island-wide federal funding strategy, attracting more private investment, and increasing ancillary revenue, Puerto Rico can improve the transportation sector's financial health and invest more in-service delivery to public transportation users.²³⁷

²³⁴ Puerto Rico Public Private Partnerships Authority website

²³⁵ \$10.2 B in new build PPP at 8.5 M people in Virginia is about \$1200 per person. \$1200 per person for 3.2 M people in Puerto Rico represents \$3.8 B and Puerto Rico currently has \$127 M in new build PPP projects, per the Center for Innovative Finance Support, United States Department of Transportation Federal Transit Administration

²³⁶ The Florida Turnpike Authority and the North Texas Tollway Authority each bring in ancillary revenue equivalent to about 3-5% toll revenues. The NJTA is particularly successful in collecting non-toll revenue, and they regularly renegotiate with private operators (including toll collectors, gas stations, and service plazas) at the end of every contract. The NJTA successfully leverages the lucrative nature of these concession agreements to build performance incentives into contracts and pursue profit-sharing agreements between vendors and the agency. In 2019, non-toll revenues were equal to 15.5% of NJTA's toll revenues and included cellular tower rentals, park-and-ride facilities, rent, towing fees, property sales, billboard commissions, video feed licensing, an Arts Center, and other investments, compared to 5% in Puerto Rico. \$121 million in toll fares * 15.5% = \$16.2 million; \$16.2 million - \$6 million in "other income" = ~\$10 million. Per the New Jersey Turnpike Authority 2021 Annual Budget in Brief; the New Jersey Turnpike Revenue Bond Resolution Certification 713 (c) dated October 14, 2020; and the HTA FY2020 Fiscal Plan

²³⁷ At present, the Center of Federal Opportunities (under the Office of Management and Budget) is tasked with providing technical assistance to the Government of Puerto Rico and its related agencies in order to obtain and maximize federal grants. This recommendation requires that the Center of Federal Opportunities fulfill its mandate by supporting transportation authorities to secure further public funding

11.3 Implementation of the transportation system reform

To meet the requirements outlined above, the below milestones should be accomplished:²³⁸

EXHIBIT 73: IMPLEMENTATION TIMELINE FOR THE TRANSPORTATION SECTOR REORGANIZATION

Municipality	Action item	Owner	Deadline
Allocate transportation assets into mode-specific entities	Develop a program foundation to align on priorities, success metrics, measures and future state organizational structure to demonstrate progress	PRITA, HTA, DTOP, AAFAP	October 1, 2021
	Organize assets, roles and responsibilities within existing entities into asset-class groupings	PRITA, HTA, DTOP, AAFAP	October 1, 2021
	Identify legal and other obstacles to asset reorganization and present to FOMB	PRITA, HTA, DTOP, AAFAP	October 1, 2021
	Segregate costs/revenues associated to tolled, non-tolled roads and transit assets (i.e. labor, opex, etc.) and assign by asset class	PRITA, HTA, DTOP, AAFAP	October 1, 2021
	Amend/Update entity organizational structures to accommodate restructured roles and responsibilities	PRITA, HTA, DTOP, AAFAP	November 15, 2021
	Transfer personnel and resources (as applicable) to the relevant entities	PRITA, HTA, DTOP, AAFAP	June 30, 2022
	Finalize transfer of roles and responsibilities for non-tolled roads from HTA to DTOP	PRITA, HTA, DTOP, AAFAP	June 30, 2023
Re-allocate transit assets to PRITA	Perform initial assessment of legal, Federal Transit Administration (FTA) and Transportation Asset Management Plan (TAMP) considerations	PRITA, HTA, AAFAP	September 1, 2021
	Specify, procure, and implement required system to operate transit assets (e.g., IT infrastructure)	PRITA	December 31, 2021
	Achieve minimum financial, legal, and technical capacity to effectively manage FTA funds	PRITA, AAFAP	October 1, 2021
	Submit request to FTA for Grantee Status Designation	PRITA, AAFAP	November 1, 2021
	Achieve FTA grantee ¹	PRITA	June 30, 2022
	Finalize transfer of all transit assets to PRITA	PRITA, HTA	June 30, 2023
Transit Service Integration and Coordination	Enhance governance structure of PRITA by ensuring subject matter expertise is present at all levels of the organization, including top level management and Board of Directors	PRITA	December 31, 2021
	Adopt a single farecard for all public transit networks	HTA, ATM, PRITA	December 31, 2021
	Harmonize fares and schedules across TU, buses and ferries	HTA, ATM, PRITA	December 31, 2021
	Pool data resources in order to conduct common research on future initiatives	HTA, ATM, PRITA	December 31, 2021
	Design a coordinated network of public transit routes	PRITA	March 31, 2022
	Begin redesigning the physical landscape around transit stations to encourage pedestrian traffic and promote integration with the stations	PRITA	April 30, 2022
Leverage private-sector services for improved efficiency	Design a series of initiatives that could be implemented in collaboration with private transport networks (e.g. Públicos)	PRITA	December 31, 2021
	Develop a strategy for communicating with private network operators	PRITA	December 31, 2021
Identify and implement innovative transportation initiatives	Identify curb management practices and other practices that disincentivize the use of mass transit infrastructure	PRITA	March 1, 2022
	Introduce new legal/regulatory framework proposals to address these practices and promote greater use of transit systems	PRITA	June 30, 2022
Establish Transportation Policy Board or analogous entity ²	Establish an independent advisory board responsible for setting long term holistic strategic plans and oversight of investment prioritization processes to advance transportation from an island-wide perspective	AAFAF	November 1, 2021
	Establish processes and guidelines for reviewing and reporting on the execution of strategic plans and providing transparency and guidance on corrective action	Transportation Policy Board (TPB)	December 1, 2021
	Establish processes and guidelines for coordinating the federal grants strategy for all transportation entities to harmonize the process and maximize availability of federal funds	TPB	December 1, 2021
	Assess and develop mechanisms to lower traffic congestion and increase accessibility to transit	TPB	December 1, 2021

¹ This is dependent on FTA review and approval process, which is outside of the Commonwealth's control.

² The proposed Transportation Policy Board would have to be created by legislation or by modifying the existing legislative mandate that established an Advisory Board on Transportation

²³⁸ In the interest of ensuring compliance, the Oversight Board reserves the right to tie a portion of DTOP's and PRITA's budgets to the successful implementation of certain milestones (TBD), and, as such, freeze or clawback funds should the Government fail to implement its milestones

Part IV. Investments to revitalize Puerto Rico

As Puerto Rico aims to navigate through the COVID-19 pandemic and rebuild both economically and fiscally, the 2021 Fiscal Plan builds on what has been multi-year strategic investment program to improve government services, increase competitiveness, and create the conditions for growth that can benefit all residents.

Multiple Fiscal Plans have called for investments in front-line services that residents depend on for health, safety, and economic opportunity. This has included investments to support the Government, as well as individuals and businesses, in combating the COVID-19 pandemic. The 2021 Fiscal Plan preserves investments included in prior Fiscal Plans and supplements them in priority areas such as broadband infrastructure, developing the technology-oriented workforce of Puerto Rico, and ensuring robust civil service reform.

The Government must deploy these funds efficiently and effectively to maximize their benefit for the Island's people and economy.

These investments can be categorized as follows.

Immediate response to COVID-19

In the wake of the COVID-19 pandemic, the Oversight Board worked closely with the Government to act decisively to mitigate the effects of the sudden economic shock caused by the COVID-19 pandemic. These initial investments totaled **\$787 million** and provided hazard pay for front-line workers, direct payments to residents, essential supplies and equipment for public safety, materials for distance learning in the public education system, and funding for COVID-19 related research and development in UPR's Medical Sciences Department.

Investments in frontline services and agency operations

The 2021 Fiscal Plan also continues or makes additional investments to support frontline services and to enhance agency operations. These include **~\$900 million to bolstering healthcare infrastructure and services** (e.g., capital improvements at public hospitals, public hospital IT, telehealth infrastructure, opioid treatments, education loan forgiveness for rural healthcare professionals, and funds to maintain nurse and health professional staffing levels), **~\$880 million for public safety** (e.g., police salary raises, police equipment and capital, funds to hire Forensics Institute personnel, and funds for a DCR assessment of facility footprint and consolidation potential), **~\$640 million for educational outcomes** (e.g., funds for school psychologists and nurses, better transportation for students, teacher time and attendance analysis, needs based scholarships, incentives for student attendance reporting, digitization, teacher and director salary raises, and innovation), and **~\$550 million for new Government programs and to enhance agency operations** (e.g., funds to support ERP implementation, hire staff to finalize centralized procurement initiatives, accelerate municipal service consolidation, create transparency into economic incentives, hire special prosecutors and agents for the Specialized Domestic Violence, Sexual Crimes and Child Abuse units, and enable the fourth phase of the "Abriendo Caminos" infrastructure improvement program and for regular maintenance programs for the road infrastructure, etc.).

Strengthening the technology sector

To ensure Puerto Rico can compete in a global economy, the 2021 Fiscal Plan includes critical funds for technology infrastructure and workforce development programs. These include **\$400 million to boost universal broadband access** through incentives to expanded broadband roll out and the provision of faster service, and **\$50 million to establish a 21st Century Technical and Business Education Fund**, designed to develop technical and business skills that are aligned with the needs of the 21st century economy.

Further information on these investments are detailed in *Chapter 12* below.

Cultivating a high-performing public workforce in Puerto Rico

To ensure the Commonwealth Government can provide quality services to Puerto Rico's residents for years to come, especially given the set of natural disasters and emergencies the Island continues to face, the 2021 Fiscal Plan includes **~\$790 million for comprehensive civil service reform**. The program will aim to: align the Government's workforce capabilities and organizational structures to better meet mission objectives; enable the Government to better recruit and retain the right talent; augment employee development through standardized training; optimize human resources technology, compensation structures and policies; and redesign performance management and succession planning to promote employee development. The program will start with a pilot for financial management personnel and functions; the Oversight Board will work with the Government to ensure the success of this pilot as well as its scaling across other agencies and functions.

Further information on these investments are detailed in *Chapter 13* below.

Chapter 12. Strengthening Puerto Rico's technology sector

12.1 Broadband infrastructure

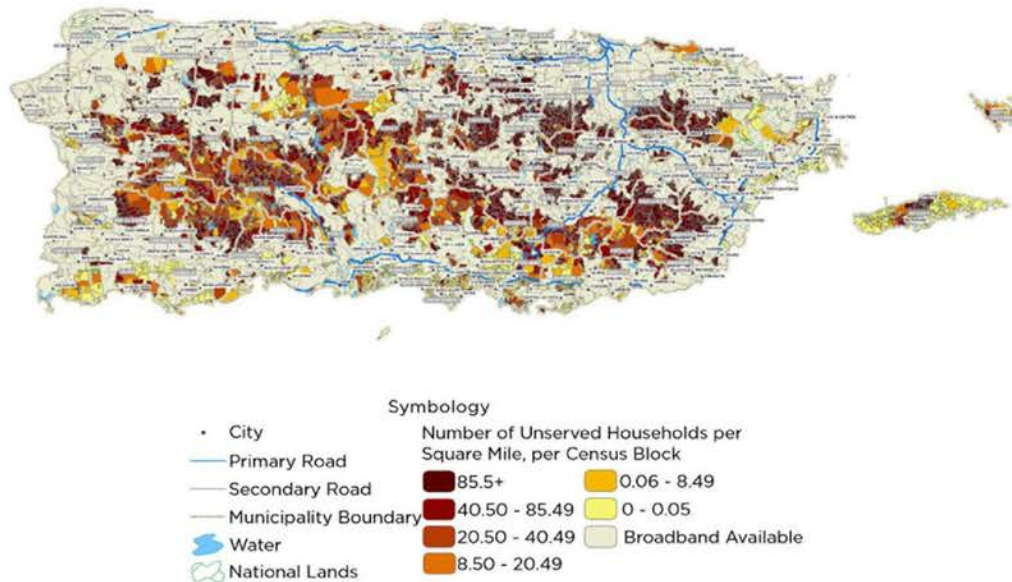
The 2012 Puerto Rico Broadband Strategic Plan (written by Connect Puerto Rico, in conjunction with the Puerto Rico Telecommunications Regulatory Board and the Puerto Rico Broadband Taskforce) established a vision of a Puerto Rico with fast, robust, redundant, and ubiquitous broadband access. Broadband provides numerous socio-economic benefits to communities and individuals, including improving labor market outcomes by enabling remote education and increasing business productivity through better connectivity, providing access to better health care through telemedicine for those in rural areas, and enhancing civic participation through better access to information.

During the COVID-19 pandemic, internet access has become even more important to residents' livelihoods. Across the US, telemedicine is becoming more widespread as a way to deliver health services safely. As public and private school systems alike move to distance learning models, students who do not have access to reliable, high speed internet are unable to participate – and therefore fall farther behind. Finally, most employers have shifted to remote or hybrid working models, meaning participation in the formal sector requires stable broadband access.

Unfortunately, within Puerto Rico, while there was some growth in broadband deployment in 2011-2014 (driven by an aggressive capacity upgrade of cable networks, as well as the deployment of fiber by other broadband providers), critical broadband infrastructure gaps still exist, particularly across rural areas of the Island. As of 2014 (the most recent year for which data is available), while ~99% of urban households across Puerto Rico had access to speeds of at least 10 Mbps download and 1.5 Mbps upload, this was true for only ~66% of rural households²³⁹ (see *Exhibit 74* below). Broadband adoption figures across Puerto Rico also reveal a persistent gap among certain demographic groups. Broadband non-adopters in Puerto Rico are generally low-income groups, senior residents, people with disabilities, and/or individuals with less education, which mirrors demographic trends related to broadband adoption on the U.S. mainland. These gaps have possibly widened since Hurricanes Irma and María, particularly in the mountainous region of Puerto Rico, where topography has hindered replacement of damaged infrastructure.

²³⁹ Puerto Rico Broadband Strategic Assessment, 2015

EXHIBIT 74: PUERTO RICO BROADBAND STRATEGIC ASSESSMENT (2015) – UNSERVED HOUSEHOLDS



Addressing the digital divide is critical to ensuring that all residents of Puerto Rico can take advantage of the many well-documented socio-economic benefits afforded by Internet connections. These benefits are most evident when people have access to the Internet at speeds fast enough to be considered broadband since these speeds are required to facilitate full interaction with advanced online platforms.

Historically, the Federal Government has created a number of programs to expand and subsidize broadband access throughout the United States, including the Federal Communications Commission (FCC) *Uniendo a Puerto Rico Fund*, the FCC E-Rate and Rural Health Care programs, and the FCC Connect America Fund (CAF), amongst others. To date, these programs have yet to fully address the particular needs of Puerto Rico with regard to broadband availability, quality of service, and adoption, and significant gaps in service availability and take-up remain. For example, the *Uniendo a Puerto Rico Fund*, an FCC reverse auction program to help rebuild the fixed and mobile broadband infrastructure damaged during the 2017 hurricanes, awarded \$385.9 million for a 10-year period totaling (\$127.1 million and \$258.8 million, for fixed and mobile infrastructure, respectively). Although wide in coverage, this program emphasized availability of service over affordability, adoption and usage and focused on deployment across residential locations, potentially overlooking public institutions. Meanwhile, while significant new national broadband funding is also expected through federal legislative responses to the COVID-19 pandemic (including the CARES Act, the CRRSA Act, and the proposed American Jobs Plan Act), funds for Puerto Rico are still to be determined, and could be minimal.

To truly address broadband affordability and accessibility, more investment is needed. As such, the 2021 Fiscal Plan complements federal programs with \$400 million in FY2021 (to be used over three years) to accelerate growth in broadband access and expand resident adoption and use of online resources, develop necessary and reliable data through an assessment of broadband availability, incentivize private sector investments in broadband build-out, and to improve access to faster speed offerings in underserved areas (the “Broadband Infrastructure Fund”). This emulates the approach taken by several states such as Illinois, Minnesota, California and Kentucky. While the overarching goal of all these sources of funding is aligned with that of federal

programs, their focus, scope, granting and eligibility criteria, and disbursement timeline are different and complementary.

Meanwhile, in order to maximize the impact of these resources, an integrative, comprehensive and well-coordinated broadband strategy is required. This coordinated strategy should help overcome barriers to broadband expansion, ensure that all residents, enterprises, and public institutions in Puerto Rico benefit from this capacity, and ensure that critical public institutions – e.g., schools, hospitals, libraries – can stay connected. The goal is that the Broadband Infrastructure Fund will support expansion efforts in unserved and underserved areas through a grant program (the “Broadband Infrastructure Grant Program”) that will fund a portion of the cost of deployment in these communities.

The Broadband Infrastructure Fund and its associated grant program, stand to complement the federally funded programs by:

- Developing and implementing a purpose-built broadband program for the needs of Puerto Rico
- Updating the Puerto Rico Broadband Strategic Assessment, and establishing a system for continual updates, data analysis and maintenance
- Providing increased penetration and faster connectivity to users, at levels compatible with the 2015 Puerto Rico Strategic Assessment (100/50) and higher than minimum federal requirements (25/3)
- Driving up adoption and usage (~40% of Puerto Rico households do not have an internet subscription²⁴⁰)
- Connecting critical public institutions, including schools, hospitals, and libraries
- Enhancing resiliency of infrastructure by favoring buried conduit over aerial infrastructure
- Encouraging the participation of local vendors (~69% of local residents live in areas where there is only one provider²⁴¹)
- Providing for roll out over a shorter timeframe (3-years as opposed to 10 years)
- Enabling up-to-date and reliable local data distribution supporting FCC monitoring and assessing the digital divide

A successful Broadband Infrastructure Grant Program will require strong leadership, accountability, continuity, and willingness to work with a broad range of entities, both within the Government and the private sector. There are a variety of ways U.S. mainland states structure their broadband programs (e.g., some states, including Minnesota and Colorado, have broadband offices established by statute or executive order, while others, including Tennessee, have staff within an agency dedicated to supporting broadband programs). In the case of Puerto Rico, the grant program will be managed by a third-party administrator (the “Grant Administrator”) who will develop and manage a transparent and user-friendly grant application process, including development of the grant application, and will monitor disbursements from the Broadband Infrastructure Fund, amongst other administrative services.

This 2021 Fiscal Plan requires AAFAF to conduct a transparent, competitive procurement process as reviewed and approved by the Oversight Board to select the Grant Administrator. The selected Grant Administrator shall have a staff of experienced professionals and a dynamic network of collaborators that include a broad range of private and government organizations. The Grant Administrator must also ensure accountability by requiring that all grantees demonstrate they are providing the service they were funded to deliver, while also providing the data needed to evaluate the program and progress toward defined goals.

²⁴⁰ The White House, “American Jobs Plan, Puerto Rico Fact Sheet” 2021

²⁴¹ Ibid.

The 2020 Fiscal Plan indicated that AAFAF had to complete the procurement by December 1, 2020, and on October 21st 2020, AAFAF released a Request for Proposals (RFP) for broadband infrastructure grant administrator services (i.e. procure the Grant Administrator). A total of 4 proposals were received by the RFP's deadline. On February 1st, 2021, AAFAF confirmed 5 members for a selection committee, which began to evaluate all proposals. To date, a preferred proponent has not been selected as a Grant Administrator. A schedule for the spending of these funds is shown in *Exhibit 75* below.

EXHIBIT 75: ALLOCATION OF STRATEGIC INVESTMENT FUNDING FOR TELECOM BROADBAND INFRASTRUCTURE (\$M)

	FY22	FY23	FY24	Total
Assessment – Update Plan	1.0	-	0.5	1.5
Broadband Grant Program	50.0	168.0	173.0	391.0
Trust Admin/ Program Evaluation	2.5	2.5	2.5	7.5
Total	53.5	170.5	176.0	400.0

Over the next three years, in partnership with the Federal Government and public and private stakeholders, the Fund Administrator must collaborate to assess, evaluate, and map various opportunities for broadband expansion. Broadband inventory maps and technology assessment research will enable a better understanding of the Puerto Rico broadband market and help define infrastructure needs in underserved regions, as well as ensure that money is sent to the right places. The Fund Administrator, in collaboration with the broadband provider community, information and communication technology providers, K-12 education stakeholders, the higher-education community, healthcare professionals, local government, grassroots community groups working to address the digital divide in their communities, and private sector groups for whom broadband is an essential investment asset, will be responsible for:

- Monitoring, measuring, and assessing the impact of broadband across the Puerto Rico economy
- Measuring and publishing aggregate, industry-wide data regarding broadband investment trends
- Measuring and publishing aggregate broadband use patterns
- Adjusting Puerto Rico economic indicators to estimate and monitor the impact broadband has on the overall economy

Moreover, the Grant Administrator will set up the Broadband Infrastructure Grant Program and develop a solicited proposal mechanism with the goal of providing funding to telecommunications operators and other Internet Service Providers to support broadband deployment in unserved and underserved areas. The Grant Administrator will be overseen by a 5-member government committee (the “Grant Committee”) which will provide guidance as it relates to the grant administration services and ultimately approve any grants awarded by the Grant Administrator. The Grant Committee will also have one (1) ex-officio and non-voting member from the Oversight Board.

Once funding has been approved and disbursed, the Grant Administrator must institute grant reporting, data collection, and other accountability measures to ensure that funded projects

deliver the promised service and provide data necessary for the state to evaluate progress toward its goals. Additionally, and to speed up deployment, The Grant Administrator, in collaboration with relevant telecommunication stakeholders, must also work to streamline construction permitting and planning, and leverage existing public assets, such as poles, ducts, conduits, and rights-of-ways, to incentivize private broadband investments.

The Grant Administrator will also provide timely information and strategic planning support to grantees who can leverage FCC funding opportunities as part of the broadband build-out. Therefore, program grants will need to “plug in” some of the gaps inherent in the federal programs, like focusing on critical institutions (e.g., schools, hospitals, libraries), enhancing resiliency of infrastructure by favoring buried conduit, encouraging higher speed infrastructure (100/1000 fixed, 5G wireless) and making service more affordable by driving adoption and utilization of disadvantaged populations.

By ensuring the Government enhances measuring, monitoring and strategic oversight of telecoms and internet service providers, the 2021 Fiscal Plan expects to improve the overall infrastructure on Island and to provide enhanced opportunities—through better and more equal access to education, healthcare, and information—for the people of Puerto Rico. The goals set forth by the 2021 Fiscal Plan, which require a Fund Administrator to conduct a data assessment and develop a new strategic plan in consultation with local stakeholders, will ensure a holistic vision for the program, one that is distinct and complementary to other broadband funding streams.

In order to achieve all these objectives in a timely manner and ensure access to this funding, the Government must accomplish the following actions by their respective deadlines:

EXHIBIT 76: REQUIRED IMPLEMENTATION ACTIONS FOR THE BROADBAND INFRASTRUCTURE GRANT PROGRAM

	Action item	Owner	Deadline
To be completed in FY2021	▪ Select Grant Administrator	▪ AAFAF	▪ April 2021
To be completed in FY2022 and beyond	▪ Perform Broadband assessment	▪ AAFAF	▪ September 2021
	▪ Setup Broadband Infrastructure Grant Program	▪ AAFAF	▪ December 2021
	▪ Launch Broadband grants application and selection process	▪ AAFAF	▪ January 2022
	▪ Complete execution of the Broadband infrastructure buildout projects supported by the program	▪ AAFAF	▪ June 2024

12.2 21st Century Technical and Business Education Fund

In addition to funding for telecom and broadband infrastructure, the 2021 Fiscal Plan recognizes the importance of investing to close core skill gaps and ensure the people of Puerto Rico are able to compete in a global economy. Creating an aligned, 21st century workforce that prepares residents of Puerto Rico to thrive is the central challenge to maintaining economic competitiveness over the next decade.

As the pace of technological change has accelerated, one core skill gap in Puerto Rico is around technical capabilities. To close the gap for people who are already in the workforce, Puerto Rico must take a learner-centric approach to make it easier to access targeted technical education.

Meanwhile as businesses look for new skillsets, they are often willing to look beyond college graduates to fill open roles – especially for technical skills. According to a recent survey by Future Workforce, 90% of employers would hire candidates who validate their knowledge using a certification, digital badge, or coursework in lieu of a college degree.²⁴² In addition, 55% of employers often offer jobs to people who have not finished college. Today, the number of both traditional and non-degree credentials is rising. There are now 315,067 unique credential programs from non-academic organizations, with the largest categories being digital badges and online course completion certificates. Coding bootcamps, which have appeared recently, were responsible for over 1,000 unique credentials.

In Puerto Rico, there are initiatives such as Codetrotters Academy, which offers 10-week certification programs in web and mobile development, and the Holberton School, which recently opened a campus on the Island. However, these programs are limited and may not be affordable to many residents. In addition, they mostly focus on web development and programming, thereby leaving an array of important technical areas uncovered, such as cloud infrastructure, server administration, cyber security, business intelligence, artificial intelligence (AI), and machine learning (ML).

Addressing the need for additional short-duration technical and business education opportunities requires forceful and forward-thinking leadership. To spearhead this drive for Puerto Rico, the 2021 Fiscal Plan allocates \$50 million for a 21st century Technical and Business Education Fund.

The 2020 Fiscal Plan required AAFAF to conduct a transparent, competitive procurement process as reviewed and approved by the Oversight Board to select an organization to serve as the administrator of these funds (the “Education Fund Administrator”). The selected Education Fund Administrator must have a staff of experienced professionals and a dynamic network of collaborators that include a broad range of private and government organizations. AAFAF must complete the procurement by December 1, 2020. To date, the RFP Request for Proposal has not been completed and a fund administrator has not been selected. The Oversight Board expects this administrator to be selected by September 2021, in order for the Government to keep access to funding for this important program.

The Education Fund Administrator will be tasked with developing a plan for 21st century technical and business skills for the entire workforce pipeline in Puerto Rico. The plan will prioritize the technical and business areas/skills to focus on, and the program will partner with multiple stakeholders in catalyzing and evolving the skills ecosystem. Scholarships would be made available for programs that are certified by the Education Fund Administrator, which would do so in alignment with the skill development plan. To support these efforts, the Education Fund Administrator must establish an engagement mechanism with stakeholders (e.g., a private sector taskforce), publish the results of its skills assessment report, create the supporting infrastructure for the scholarship program, and put in place a regular monitoring and evaluation process.

Furthermore, the plan will allow universities and private providers to develop and open programs in anticipation of fees from the scholars’ enrollment. Given the importance of online learning, the plan should also encourage programs to be offered in multiple formats, be it online, on campus, or a hybrid of the two.

²⁴² Future Workplace and Wiley Education Services, “Closing the Skills Gap,” 2019

Chapter 13. Cultivating a high-performing public workforce

13.1 The need for Civil Service Reform in Puerto Rico

The civil service is the backbone of good governance and quality public service provision. Having dynamic, competent, motivated, and high-performing civil servants is critically important as they have a direct bearing on the content and implementation of public policies and reforms, translating executive and legislative directives and regulations into tangible daily actions. The ability of the Government of Puerto Rico to provide quality services to its residents has been questioned for some time, especially when considering its recent performance in managing emergencies such as the earthquakes in the south part of the Island and the COVID-19 pandemic.

For this reason, the sustainability and quality of public services requires a comprehensive civil service reform to resolve the underlying problems and challenges of human resources management in the Government. Only by achieving this kind of reform will the Government be able to change practices that prevent Puerto Rico's Government from effectively fulfilling the most fundamental and emerging needs of its residents.

Act 8-2017 (formally known as the "Government of Puerto Rico Human Resources Administration and Transformation Act") and Regulation 8992 (formally known as the "Regulation for Implementation of Act 8-2017") were adopted by the Puerto Rico Government with the intention, among others, of achieving best practices in public administration. However, based on the evidence gathered by Oversight Board, the reforms have fallen short, as they have covered too little ground, and allowed much of the existing civil service challenges to remain intact²⁴³. One major flaw of Act 8-2017 was the underlying assumption that centralizing certain operational structure of human resource management would lead to a transformation of the civil service. Another aspect where Act 8-2017 fell short is that it covered a small portion of government employees because a significant number of government entities are exempted from its application. Short-term tweaks such as the centralization of compensation and classification systems do not resolve the structural problems in the civil service. True and effective reform must address the inherent problems of civil service, like political patronage, an aging and outdated talent pool, and poor performance, and redesign the processes and systems used to manage human resources in the Government.

In May 2019, the Government of Puerto Rico submitted a Uniform Classification and Compensation Plan to establish a uniform role and pay structure for its employees. The plan included career government employees and positions of trust across 65 agencies subject to the jurisdiction of the Government's central personnel management agency, the Office of the Administration and Transformation of Human Resources (OATRH, by its Spanish acronym). The plan proposed an annual investment of \$146 million to provide compensation increases for 13,198 employees in these agencies.

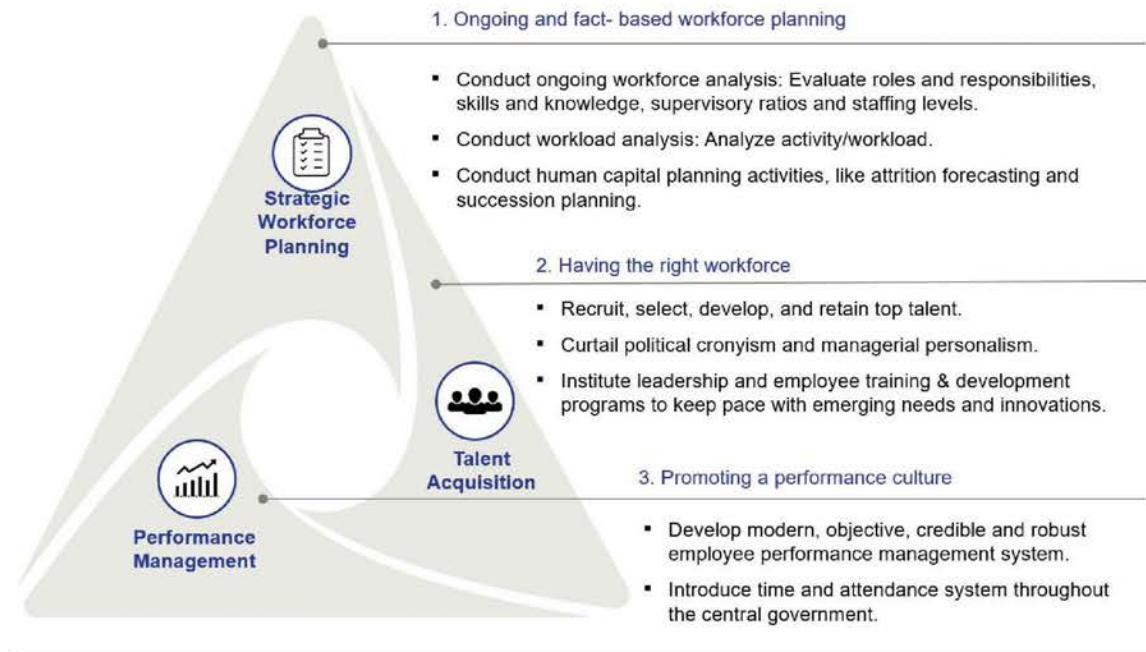
Although a worthy effort to ensure consistency and standardization across government agencies, the Uniform Classification and Compensation Plan falls short in addressing the perennial structural problems in human resource management (HRM) in the Commonwealth's civil service. A recent examination of the existing human resources management structure in the Commonwealth Government conducted by the Oversight Board revealed many deficiencies in areas such as strategic human capital planning, recruitment, selection, talent management, performance management and evaluations, and succession planning.²⁴⁴ Therefore, the

²⁴³ Gonzalez, Simuell et al. "Policy Paper: Civil Service Reform." Puerto Rico Federal Oversight Management Board website. Accessed April 21, 2021

²⁴⁴ Ibid.

Government should consider a broader and more integrated approach to civil service reform, as shown in *Exhibit 77*.

EXHIBIT 77: CIVIL SERVICE REFORM GOALS FOR THE COMMONWEALTH



13.2 Civil Service Reform approach

There is no universal blueprint for successful civil service reform. Changes in public sector personnel management should be tailored to the local context and conditions. Some governments adopt a comprehensive, government-wide approach to civil service reform, fully revamping the civil service system, while others follow a more incrementalistic approach, targeting more narrow areas of human resource management. For example, Title VI Section 601 (i.e., Research programs and demonstration projects) of the Civil Service Reform Act of 1978 allowed “federal agencies to experiment, subject to congressional oversight, with new and different personnel management concepts in controlled situations to achieve more efficient management of the Government's human resources and greater productivity in the delivery of service to the public.” Allowing federal agencies this flexibility to innovate on personnel management systems has proven useful with many federal agencies making their demonstration projects permanent. Further, it will be difficult to push civil service reforms forward that have a positive lasting impact in Puerto Rico without strong executive and legislative backing and strategic engagement with key stakeholders.

Given the amount of administrative and political challenges with reform in Puerto Rico, a gradual and more narrowed approach, focused on pressing human capital issues within key functions of government might be more practical. Adopting a pilot-then-scale implementation approach will enable government leadership to see reforms in action and allow for policy changes and new programs to be adapted and tweaked as required prior to a larger-scale implementation and roll out. It also allows leadership to get a more concrete and accurate idea of the operational and financial challenges that might be faced in the implementation of reforms.

13.3 Financial management and reporting within the Commonwealth

As mentioned in previous chapters, Puerto Rico has had fiscal management challenges for years that created a growing deficit in the Island. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must be able to return to the timely publication of audited financial statements and related disclosure information, which is a key issue for regaining access to markets, in accordance with PROMESA. Best practice calls for audited statements to be published no later than 180 days after the end of each fiscal year, while in Puerto Rico, the FY2015 and FY2016 Annual Audited Report (AAR) were issued and published by the Government 1,095 and 1,037 days, respectively. The latest completed (AAR) is that of FY2017, issued 38 months after the fiscal year ended. Currently, the Commonwealth is conducting the FY2018 audit (expected to be issued by June 2021), and proposed to complete the FY2019 AAR by May 2022 – 35 months after that fiscal year closed. The current rate of progress to close this gap and bring these reports and audits current is not effective and the amount of time projected to audit each year in arrears will guarantee that the Commonwealth will continue this unacceptable situation well into the future.

A root cause of Puerto Rico's financial management challenges is that the Government lacks key personnel with the technical knowledge and training to properly implement new and current Governmental Accounting Standard Board (GASB) pronouncements and develop a proper financial management infrastructure. As a result, the Government continues to engage with outside contractors for critical day-to-day functions. Senior officers in charge of the preparation, review, and approval of the AAR's are replaced every time there is a change in administration. Meanwhile, Hacienda's workforce is significantly older than most private sector firms, which increases the seriousness of workforce challenges ahead. For example, almost half of Hacienda employees have been in government for over 20 years. Having long tenure but limited upward movement and training means that some employees may not have the "future skills" that are necessary for continued mobility. Similarly, employees with long tenure are more likely to have an outdated job description, with responsibilities that might be currently obsolete. And given high attrition rates across the Government, Hacienda will need succession planning efforts as well as effective sources and methods for recruiting and retaining candidates to avoid the loss of technical expertise in mission-critical skills.

In order to solve these workforce challenges, a clear and fact-based understanding of the human capital situation at Hacienda and other auditing areas at Component Units is required to align "people policies" to performance goals. Instead of adding additional accountants or establishing a new Uniform Remuneration Plan (URP) in a vacuum, the Government should work on developing a comprehensive human capital plan for financial management and reporting functions, using data and analysis to address specific areas, like strategic alignment, talent management, performance, and evaluation.

13.4 A human capital pilot to enable timely and effective financial reporting processes in the Government

The Government must commence a **civil service reform pilot program (Pilot)** to achieve an aligned and sustainable human capital strategy to meet future financial reporting challenges at the Commonwealth. The Pilot would have the following objectives:

- Align the Commonwealth's workforce capabilities and organizational structures to better meet objectives.
- Enable the Commonwealth to recruit and retain the right talent needed to meet financial reporting requirements.

- Augment employee development through standardized training, evaluation, and knowledge transfer.
- Optimize processes, technology, compensation, and policies to effectively support human capital management.
- Redesign performance management and succession planning to promote employee motivation, development, and retention.

The Government shall be responsible for assembling a Pilot Project Team (PPT)—comprised of Hacienda, the Office of Management and Budget (OGP, by its Spanish acronym), OATRH, the Fiscal Agency and Financial Advisory Authority (AAFAF, by its Spanish acronym) and the Oversight Board—to perform ongoing weekly tracking and reporting of the Pilot. The PPT would also be in charge of reviewing current and future state documentation, such as operational structures, job descriptions, headcount, budgets, human resources policies and procedures, and previous financial reporting reports. Upon reviewing all the information, the PPT would conduct a current state gap analysis in skills, abilities, and knowledge, and then define future state competencies and activities for finance and accounting roles at Hacienda and other relevant agencies. Based on the assessment, the PPT will develop recruitment policies and processes and an actionable roadmap for Pilot implementation, prioritizing key positions for talent interventions.

The Pilot will be developed in phases. *Exhibit 78* includes detailed actions, timelines, and milestones that will require action by the Government to make progress in the Pilot.

EXHIBIT 78: PILOT MILESTONES AND PHASES

Action item	Phase Duration
■ Establish Pilot Project Team comprised of Hacienda, OMB, AAFAF and FOMB	Week 1-2
■ Evaluate current and future state of financial management and reporting at the Commonwealth	Week 3-9
■ Conduct workload and workforce assessment of financial management divisions at Hacienda and finance departments at agencies participating in the pilot	Week 10-13
■ Develop Human Capital Plan for financial management divisions at Hacienda and finance departments at agencies participating in the Pilot	Week 14-17
■ Develop recruitment strategy and actionable roadmap for pilot implementation (including new URP structure at pilot agencies/divisions)	Week 14-18
■ Pilot execution- Recruitment of key personnel, deployment of new URP and performance appraisal system at Pilot agencies/division	Week 19-25
■ First Pilot Audit	Week 30-32

13.5 Oversight Board and pilot implementation collaboration

In addition to being a member of the PPT, the Oversight Board will play an active role in overseeing all aspects of the Pilot implementation. The Government must work with the Oversight Board and its staff to effectively implement key deliverables of this Pilot to ensure overall progress against objectives outlined in this chapter. The Government will work with the Oversight Board

staff to evaluate existing processes, analyze the problem areas, and develop a new financial management structure and a human capital plan for the future.

For example, the Government will work with the Oversight Board staff on key deliverables of the Pilot, including a current state assessment, a workforce capability matrix and report, a staffing plan, workload analysis summary, skills inventory, future state operating model / organizational design, short- and long-term recruitment strategies, revised recruitment policies and procedures, and prioritized talent intervention actionable roadmap, exclusive of identifying contractor support for implementation.

13.6 From pilot to government-wide Civil Service Reform implementation

Once the audit of the Pilot is completed and it is determined by the Oversight Board that the Pilot objectives were met, the 2021 Fiscal Plan provides an option for larger-scale implementation and roll out of the Civil Service Reform for the rest of the central government. Expanding of the Civil Service Reform will be done incrementally, strategically moving from one government agency to the next based on implementation indicators collected by the Oversight Board. The PPT will be tasked with developing a scaling roadmap detailing where, when, and in what order to expand the Civil Service Reform. *Exhibit 79* includes a scaling checklist detailing the essential steps to deploy the Civil Service Reform at a given agency.

EXHIBIT 79: CHECKLIST OF ESSENTIAL STEPS TO EXPAND CIVIL SERVICE REFORM

Civil Service Reform Components	Central Government Outcomes	Agency Accountabilities
Pilot Financial Management	<ul style="list-style-type: none"> Successful implementation of the pilot (per FOMB audit) 	
Strategic Workforce Planning	<ul style="list-style-type: none"> Digitalization of HR records through a centralized information system Training of OATRH staff and HR professionals at Commonwealth agencies of the new system Workforce planning forecasting model tool to perform quantitative and scenario-based workforce modeling 	<ul style="list-style-type: none"> Appropriate policies to enable HR data management compliance in the new centralized information system Facilitation of trainings and workshops for implementation of new system Deployment strategy to enable adoption and utilization of new system (certified by OATRH)
Talent Acquisition	<ul style="list-style-type: none"> New recruitment and outreach policies and procedures New recruitment web platform Talent screening of qualified candidates and outreach activities by 3rd party staffing agency 	<ul style="list-style-type: none"> Facilitation of trainings and workshops for implementation of new system Deployment strategy to enable adoption and utilization of new system (certified by OATRH)
Performance Management	<ul style="list-style-type: none"> New performance appraisal framework, guidelines and operating manual Identified critical capabilities and key performance metrics for talent evaluation processes Web-based performance appraisal system Time and Attendance (T&A) guidelines for agencies 	<ul style="list-style-type: none"> Facilitation of trainings and workshops for implementation of new system Deployment strategy to enable adoption and utilization of new system (certified by OATRH) Utilization and compliance with T&A system guidelines and procedures Automate TNR at agency

13.7 Funding the program

The Oversight Board estimates that the financial management Pilot will cost \$11.5 million in FY2022, which includes \$1.5 million in implementation costs. As the program scales, the Government and Oversight Board estimate that it will cost \$83 million per year in General Fund expenditures. The 2021 Fiscal Plan includes almost \$800 million in investment FY2022-FY2051

to cover much of the run-rate costs of the program, while it expects the Government to fund a portion through savings generated through its Time & Attendance project.

On March 8, 2021, the Puerto Rico Department of Education (PRDE), in conjunction with AAFAF and Hacienda, officially launched and implemented a Time and Attendance (T&A) project that allowed the Department to determine which employees were being paid while no longer active or employed. Already, \$22 million in run-rate General Fund savings have been identified through PRDE's efforts. Implementation of T&A is estimated to save \$58 million annually by ensuring that only active employees who show up to work get paid.

EXHIBIT 80: CIVIL SERVICE REFORM COSTS AND SAVINGS²⁴⁵

Cost and Savings, \$M	FY22	FY23	FY24	FY25	FY26
Civil Service Reform Costs	12	38	64	83	84
T&A Savings	12	38	58	59	60
Civil Service Incremental Costs to the CW	0	0	0	9	25

²⁴⁵ PRDE in FY2022 already achieved \$22 million of savings as a result of T&A implementation in FY2021 of which \$11.5 million will go to pay the Civil Service Reform in FY2022

PART V: Transforming government to better serve the residents

In addition to structural reforms, the Government must also implement fiscal measures to create a sustainable fiscal future for Puerto Rico. Fiscal measures should reduce costs while maintaining or improving the quality of important services. The wide range of government efficiency initiatives target an increase in revenues through new and more efficient collections activities, while decreasing government expenditures by ensuring reasonable usage of resources.

Although the Government has successfully maintained balanced budgets established by the Fiscal Plans, it has been slow to make meaningful progress in transforming its processes and organizational structures. These measures are necessary to sustainably reduce the Island's cost of operations. This delayed progress has created precarious risk to government service delivery, especially given recent events.

The earthquakes and the COVID-19 crisis have caused local residents to be especially reliant on the Government to effectively and efficiently provide public services. At the same time, the Government has received significant funding from both the Federal Government and the Oversight Board to respond to COVID-19, ensure service provision, and spur economic recovery. For one, the Oversight Board and Government provided a \$787 million Emergency Support Package in early 2020 to agencies, individuals, and businesses. Further, COVID-19 related federal relief has totaled over \$43 billion for the Island, with ~\$4 billion alone going to PRDE and \$5.5 billion for the Government's fiscal uses (via the CARES, CRRSA, and ARP Acts). Finally, the Oversight Board paused most fiscal measures for FY2021 to enable the Government to focus on implementation.

Unfortunately, the Government has struggled to drive operational changes and reforms, in part due to COVID-19 and a transition in Commonwealth leadership, but also because agencies have not focused on pursuing such reforms. With billions of dollars in federal support and the nation and Island starting to navigate out of the pandemic, the time is now for the Government to make its final push to drive efficiency and effectiveness.

With a new administration in place, the Government has a new opportunity to re-commit to identifying and driving initiatives that will result in better processes, more efficient spending, and greater quality of service for the Island. The 2021 Fiscal Plan resumes fiscal measures in FY2022 and continues to include milestone budgeting, which provides incentives for achievement of longstanding key fiscal goals and efficiencies. Through these incentives, as well as rapid implementation of effective managerial processes, the Government can make meaningful progress in FY2022.

Fiscal measures

Office of the CFO (*Chapter 14*). The Office of the CFO ("OCFO"), will be responsible for a variety of reforms that will ensure the most efficient financial stewardship of the Island's resources.

Agency Efficiencies (*Chapter 15*). The new model for government operations involves "rightsizing" the Government through agency consolidation, process re-engineering, standardization of benefits, and reduction and/or elimination of government services. This process includes implementing comprehensive reform initiatives in the Departments of Education, Health, Public Safety, Corrections, OCFO, and Economic Development, as well as consolidations and reductions within the "long tail" of other agencies. FY2022 represents the final "savings ramp" for most of these measures, which are supposed to have been implemented since

FY2019. Agency efficiency measures must result in \$1.5 billion in run-rate savings²⁴⁶ by FY2026 (versus the FY2018 baseline).

Medicaid Investments and Reform (*Chapter 16*). Healthcare measures seek to reduce the rate of healthcare cost inflation through a comprehensive healthcare model. The model prioritizes quality relative to cost and must result in \$331 million in run-rate savings by FY2026, projected to grow with healthcare inflation.

Tax Compliance and Fees Enhancement (*Chapter 17*). Tax compliance initiatives involve implementing new taxes as well as employing technology and other innovative practices to capture revenue from under-leveraged sources. These initiatives must increase run-rate revenues by \$459 million by FY2026.

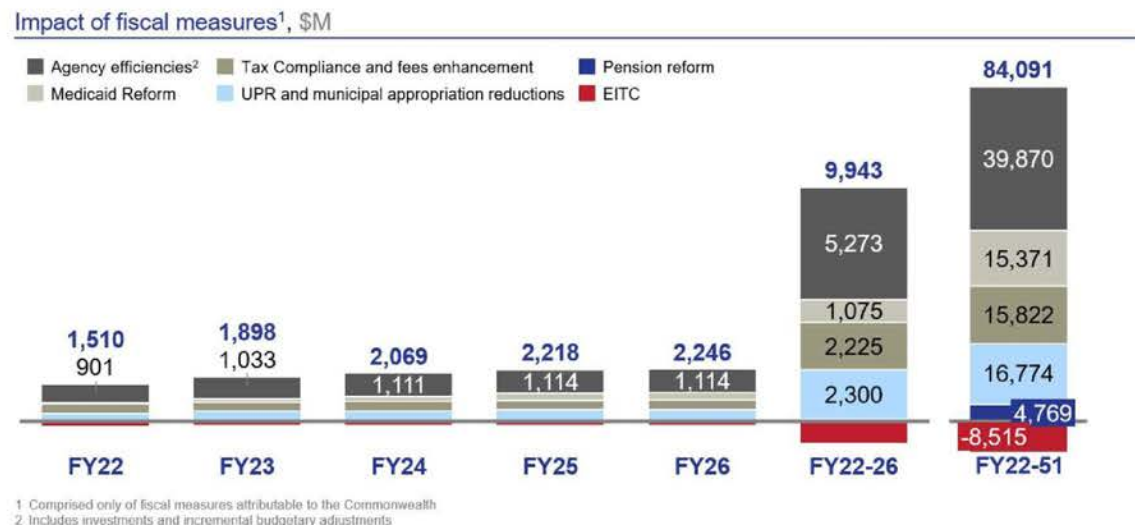
Reduction in Appropriations to UPR (*Chapter 18*). The central Government will decrease appropriations granted to UPR, which must result in \$288 million in run-rate savings by FY2026.

Municipal Services Reform (*Chapter 19*). In FY2017, Municipalities faced a dire financial situation despite massive Commonwealth assistance. The 2021 Fiscal Plan establishes a reduction of \$220 million to the Municipalities appropriation through municipal service consolidation and improvement in property tax collections to achieve a 100% reduction by FY2025.

Pension Reform (*Chapter 20*). The current PayGo system must be modified to freeze future pension accruals and reduce current benefit amounts paid (with protection for participants with benefits close to the poverty level). Future retirement benefits must be funded by expanded Social Security and Defined Contribution access to safeguard the financial stability of the public employees' retirement funds. These pension reform measures must result in \$46 million of net run-rate savings by FY2026.²⁴⁷

Together, these measures are crucial to the structural balance of the Commonwealth's budget, and are projected to have an impact of over \$10 billion during FY2022-FY2026 and over \$84 billion by FY2051 (See *Exhibit 81*)²⁴⁸.

EXHIBIT 81: CUMULATIVE IMPACT OF FISCAL MEASURES SAVINGS AND REVENUES²⁴⁹



²⁴⁶ Includes right-sizing, compensation, and utility measures

²⁴⁷ Excludes savings attributable to the upfront payment to System 2000 participants

²⁴⁸ Excludes non-Medicaid healthcare investments, union agreement, and other COVID-19 related investments

²⁴⁹ Excludes Union agreement, Non-Medicaid health investments and other COVID-19 investments

Chapter 14. Office of the Chief Financial Officer (OCFO)

One of the key goals of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) is for fiscal accountability to be quickly and permanently ensconced in the Government. To fulfill this goal, the Government must create a strong Office of the Chief Financial Officer (OCFO). By centralizing key financial management functions (e.g., financial reporting, procurement, payroll) under a capable and well-resourced OCFO, the Government can address long-standing issues that have arisen under the Island's historically decentralized financial management regime that did not provide a central focus to government-wide financial reform. These include persistent difficulties around: understanding the financial needs and priorities across Government, collecting transparent data, conducting timely and accurate consolidated reporting, preventing the misallocation of funds, preventing agencies from overspending their budgets, controlling management of bank accounts, and consolidating financial statements. The OCFO is the organization that establishes policies, processes and procedures that are repetitive, efficient, and timely to track the financial impact of all transactions and report those to government leadership and external users. The creation of a centralized OCFO has been a linchpin in the restoration of fiscal responsibility of several public entities, including the District of Columbia following its financial crisis in the mid-1990's, the City of Detroit in its Chapter 9 bankruptcy as well as New York City and Philadelphia's municipal restructuring. A strong OCFO helps to provide accurate, timely and analytical financial information to support executive decision making and evaluate the impact of certain actions on efficiency and effectiveness of program outcomes. The Oversight Board strongly stands behind the need for a centralized OCFO to **place the Island on a fiscally responsible economic trajectory and restore its access to the capital markets as required by PROMESA.**

The Government's efforts to create a highly-performing OCFO have been slow and disjointed. However, progress has been made in certain areas, including providing bank account transparency, publishing weekly emergency reserve reports, monthly reporting of budget-to-actuals for select Government agencies, enhancing General Fund collections with technology, and publishing of the 2017 tax expenditure report in September 2019. While the enhanced reporting yields some improvements in management and oversight capabilities, there is a need for more detailed and timely reporting in several areas. For instance, detailed monthly budget to actuals on Special Revenue Funds (SRFs) and component units including revenues, expenditures and encumbrances; and timely issuance of the Government's annual audited financial statements (Annual Audited Report) and the annual Tax Expenditure Report (TER). In essence, each relevant financial agency has improved operational capacity and accountability somewhat, but there has been little centralization, and responsibilities still remain unclear within the group. Operating without a strong legislative mandate, the OCFO has moved from Hacienda to AAFAF throughout FY2020, and back to Hacienda during FY2021. While the OCFO has made recent efforts to produce more granular budgets and create detailed agency-level budget-to-actual spending reports, it has been substantially delayed in the issuance of its annual audits (as of April 2021, the FY2018, FY2019, and FY2020 audits have not been issued). The goal is to have a defined repeatable process where these reports are produced as required without extraordinary intervention being required. Recently, the Governor signed an Executive Order on the position of the Chief Financial Officer, and although the effort is a positive step that is expected to begin to provide some movement toward centralization, it still falls short of the centralized authorities envisioned in the 2021 Fiscal Plan.

The Executive Order ("EO-018") provided the creation of the CFO and for it to be the Secretary of Treasury. The Secretary is tasked with numerous initiatives including issuance of the Annual Audited Report, implementation of an ERP, and establishing corrective actions on control deficiencies identified by external auditors. However, the Executive Order falls short of the OCFO envisioned in the 2021 Fiscal Plan. A statutorily-created OCFO, as envisioned by the 2021 Fiscal Plan, would possess enhanced oversight capabilities through the consolidation of authorities currently spread across multiple agencies, including the Department of Treasury, Office of

Management and Budget (“OMB”), Office of Administration and Transformation of Human Resources, the General Services Administration, and the Fiscal Agency and Financial Advisory Authority (“AAFAF”). EO-018 lacks the appropriate authorities over financial dependencies that would allow CFO authorities over critical fiscal roles, responsibilities, and processes. Further, as drafted, the OCFO is not directly staffed, rather it must collaborate with other financial agencies and those agencies are to provide staff and professional services as requested.

Key financial management and administrative functions remain distributed across a half-dozen Government agencies, and the Government has yet to legislatively authorize the OCFO’s organizational and governance structures or adequately staff the organization to fully execute its oversight responsibilities. Part of the problem is not having the right human resource management structure at the Commonwealth. Ensuring all personnel at Hacienda and other relevant agencies have clear expectations and roles, are highly motivated, and their workloads are optimally distributed will improve overall financial performance in the Government. Additionally, determining the needed competencies, assessing the available workers and recommending training, outsourcing or hiring additional staff will be necessary to enable OCFO implementation. The 2021 Fiscal Plan makes funds available to enhance the effectiveness of the civil service through comprehensive civil service reform (as outlined in *Chapter 13*). Given the importance of the OCFO to enable accurate, timely and analytical financial information at the Commonwealth, the 2021 Fiscal Plan proposes beginning the civil service reform with a pilot within financial management and reporting functions of the Government. In this Pilot, the Government will work with the Oversight Board to develop a comprehensive human capital plan for financial management and reporting functions, using data and analysis to address specific areas, like strategic alignment, talent management, performance, and evaluation. This pilot will strengthen the OCFO office and enable swift implementation.

Without comprehensive action, the Island’s financial management capabilities will continue to fall short of best practices, the expectations of the capital markets, and the needs of the Puerto Rican people. Given the amount of disaster relief funds expected to flow into the economy of Puerto Rico within the next fiscal years, over \$100 billion, proper structure and implementation of the OCFO will be required to maximize and provide oversight of the use of such federal funds. As such, the OCFO should assume all key financial management functions across the Government—necessary to place the Island on stronger financial footing²⁵⁰.

The core objectives of the consolidated OCFO must be to:

- **Centralize treasury and liquidity management**
- **Enhance the budget development process** by improving monitoring and performance tracking based on timely and accurate accounting practices and data
- **Drive the standardization and integration of the Government’s financial IT systems**
- **Ensure compliance with procurement, contract, and human resource management policies** across Government agencies
- **Ensure full implementation of pension policies** across Government agencies, including Act 106-2017 regarding the Defined Contribution system for government employees, the timely deposit of employee contributions withheld by government employers, the timely implementation of Social Security as required by the 2021 Fiscal Plan for judges and teachers, and the full repayment (with repayment plans as required) of amounts owed by government employers for PayGo obligations
- **Strengthen oversight of SRFs** through enhanced control mechanisms

²⁵⁰ On February 26, 2021 the Oversight Board held a Public Meeting with Governor Pierluisi on the outstanding Annual Audited Report issuance, ERP implementation, and OCFO creation recommendations. The Governor agreed to the recommendations presented, which are included in a PROMESA Section 205 letter addressed to the Executive branch. As of the date of the 2021 Fiscal Plan certification, the Government is still within the 90 days’ timeframe awarded to respond

- **Improve the timeliness of the publication of the Government's Annual Audited Reports and financial reporting**, achieving issuance on a best practices basis – within six months of fiscal year end
- **Centralize and validate the management of Government bank accounts, funds, debts, and other financial transactions**
- **Ensure coordination of maximally efficient use and transparent reporting of federal funds**, including both regular annual funds and disaster-related funds

Empowering the OCFO to effectively manage the Government's finances is more important than ever considering the devastating COVID-19 crisis. As part of the Federal Government's response to the pandemic, the OCFO will play a central role in administering and monitoring the use of over \$45B federal and Commonwealth funds meant to support the Island's recovery from the pandemic. To that end, the OCFO must be prepared to comply with enhanced reporting and oversight requirements governing the use of Coronavirus Aid, Relief, and Economic Security Act (CARES), the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), the American Rescue Plan (ARP) Act and other federal funds earmarked for Puerto Rico.

A properly structured OCFO will constitute an important organizing entity for the pursuit of timely financial reporting, decision making, monthly budget-to-actual analysis, and for resource management and planning. Ultimately, PROMESA requires the institutionalization of sound financial management and fiscal responsibility within the Government. As such, the Government should take steps to institutionalize the responsibilities, financial requirements, and goals encompassed in the 2021 Fiscal Plan to ensure efficient financial management practices are sustained post-PROMESA. Cooperation between the OCFO and the primary fiscal entities and officers of Puerto Rico is essential in achieving these objectives.

14.1 OCFO design parameters

14.1.1 Responsibilities of OCFO

The 2021 Fiscal Plan requires the Government to strengthen the OCFO in line with the following parameters during FY2022 by:

- **Centralizing treasury and liquidity management to:**
 - Enforce and manage a consolidated Treasury Single Account (TSA) for the Government that controls and offers visibility into all Government bank accounts (to the extent possible), including those of component units (CU) at private banks
 - Enable all other public entities to maintain zero balance sweep accounts
 - Empower the OCFO to serve as the sole authority for Government bank account creation and closure—facilitating liquidity reporting, monitoring, and analysis
 - Facilitate the rationalization of the Government's account portfolio to support maximization of earnings, cash pooling, daily cash sweeps and treasury operations, and implementation of uniform accounts payable and disbursement prioritization processes and reports
- **Enhancing the budget development process by improving monitoring and performance tracking to:**
 - Comply with the recently-issued Oversight Board budget guidelines to develop an auditable budget that is readily-traceable to the 2021 Certified Fiscal Plan and its priorities
 - Forecast and manage the seasonality of tax receipts

- Forecast and report the fiscal cost of tax credits
- Oversee all tax decrees and tax agreement issues
- Operationalize the financial system budget to ensure consistency between accounts and facilitate their monitoring
- Estimate, protect, and enhance tax collections and revenue streams
- Establish budgetary priorities—namely, effective expenditure controls and Government-wide procurement reforms
- Develop budgets using detailed and granular account level structures for expenditures and revenues accounting through standard guidelines followed by all Commonwealth agencies
- Report revenues and expenditures' budget-to-actuals for the General Fund and Special Revenue Funds on a recurring monthly basis
- **Driving the standardization and integration of the Government's financial information technology (IT) systems to:**
 - Identify disparate systems being used for financial tracking and reporting
 - Establish a roadmap to standardize and integrate systems to the fewest possible
 - Orchestrate the integration across agencies, including defining new policies and procedures, coordinating data migration and validation, and training system users to effectively utilize new systems
 - Improve and standardize processes that support and contribute to the accuracy of financial information provided to the ERP
 - The Oversight Board encourages the Government to evaluate current laws which exempt certain government entities from the Puerto Rico Government Accounting Act. Regardless, while some entities are mandated by law to maintain fiscal independence, these entities could still leverage central financial IT systems to reduce costs and automate current processes.
- **Ensuring compliance with procurement, contract, pension, and human resource management policies across Government agencies to:**
 - Certify all contracts, bills, invoices, payroll charges, and other evidences of claim, demand, or charge relating to the Government and entities reliant upon its taxing authority by prescribing receipts, vouchers, and claims for all agencies to leverage
 - Manage centralized health insurance procurement and policy management
 - Oversee human resources, Government payroll operations, and all Government-related financial transactions
 - Implement uniform time, attendance, and overtime processes, payroll controls, and reporting standards

Puerto Rico Department of Education (PRDE) Time & Attendance (T&A) Project:

- In September 2020, the Oversight Board uncovered and disclosed to the public that **PRDE paid at least \$80 million in salaries** between 2007 and 2020 **to more than 17,500 former employees who should not have been on the agency's payroll.**
- As such, on November 2020, the **Oversight Board began supporting PRDE in the T&A Project, in collaboration with AAFAF and Hacienda.** The project sought to fully implement PRDE's T&A Policy, enforce the use of PRDE's existing time reporting system (Kronos), and ensure that all payroll systems were linked. By doing so, PRDE would **ensure only active employees who showed up to work were paid**, while also **directly impacting the wellbeing of public-school students** – as students are unable to effectively engage in school or receive quality, consistent education without a teacher present.
- The original timeline of the project was that starting with the pay period of December 16 to December 31, 2020 (payable on January 31, 2021) all employees would be required to record their attendance as a condition to get paid, and those who failed to properly record their attendance would receive payroll discounts on a subsequent paycheck. However, the PRDE Secretary requested additional time to implement a communication strategy.
- Nonetheless, **PRDE successfully launched the project for the pay period of February 16 to February 28, 2021** (payable on March 31, 2021). Although the project was launched ~3.5 months after initiation, this process is expected to be continued and enforced at PRDE from now onwards, without exceptions.
 - For the **first implementation cycle** (February 16 to February 28, 2021), the **financial impact to PRDE was ~\$1.49 million** in discounts to ~4,370 employees.
- As of late March 2021, the project had already yielded significant savings to the Government. For example, as a direct result of the T&A project, the Oversight Board, along with PRDE, were able to identify **973 employees who were inactive or terminated but still being paid, representing ~\$27 million of annual payroll costs.** All findings will be officially validated through a forensic audit currently being conducted and expected to be completed before FY2021 end.

▪ **Strengthening oversight of Special Revenue Funds (SRF) through enhanced control mechanisms to:**

- Implement processes and guidelines that improve stewardship and centralization of all SRFs
- Ensure all revenue streams attributable to SRF are deposited within the TSA
- Improve centralization of revenues and expenditure budget-to-actual reporting and accounting of transactions in a centralized accounting system

▪ **Improving the timeliness of the Government's annual audited report (Annual Audited Report) and financial reporting to:**

- Produce high-quality Annual Audited Reports that follow the modified-accrual basis of accounting required by PROMESA and leverage new forecasting, e-settlement, and analytics capabilities for FY2018 onward within established regulatory timeframes
- Issue the FY2018, FY2019, FY2020, and FY2021 Annual Audited Reports no later than December 2021.
- Implement long-lasting standard reporting processes and policies to ensure FY2021 and beyond audit issuances can occur within six months of a fiscal year end

- Support stronger implementation forecasting of measures required by the 2021 Certified Fiscal Plan and more robust reporting of actuals
- Supervise property tax assessment reforms, prepare tax maps, and provide notice of taxes and special assessments
- **Centralizing and validating the management of Government funds, debts, and other financial transactions to:**
 - Maintain custody of all public funds, investments, and cash
 - Administer cash management programs to invest surplus cash
 - Facilitate short- and long-term borrowing programs
 - Establish accountability over all Government funds, property, and assets
 - Oversee all tax decrees and agreements issued
 - Publish an annual TER that identifies and quantifies all tax expenditures²⁵¹ (initial report published in September 2019 for tax year 2017)
- **Overseeing the Implementation of the 2021 Certified Fiscal Plan to:**
 - Enable all Government agencies to comply with efficiency measures stipulated within the 2021 Certified Fiscal Plan
 - Facilitate timely and targeted interventions to address areas of underperformance relative to efficiency measures
- **Ensure robust management of new federal funds and ensure compliance to maximize and optimize their usage**
 - Assign leaders to spur accountability and improve transparency
 - Establish mechanisms to coordinate with federal counterparts
 - Plan for financial inflows
 - Provide appropriate resources for agencies to handle the influx of demand

14.1.2 Authority and composition of OCFO

To execute these responsibilities, OCFO must have the power to:

- **Act as the central authority over finance, budget, human resources, audit, procurement, cash management, and debt issuance** matter for all entities supported by the General Fund or dependent on the Government's taxing authority
- **Exercise a direct reporting line into agency CFOs** (in parallel to reporting lines to agency secretaries)
- **Remove any fiscal officer belonging to entities supported by the General Fund or the Government's taxing authority for violations of or non-compliance with the law**—including failure to provide timely and accurate financial information
- **Reform personnel policies**—even through the renegotiation of existing or negotiation of future Collective Bargaining Agreements (CBAs)—**in a manner consistent with the 2021**

²⁵¹ These include tax exclusions, exemptions, adjustments, deductions, subtractions, credits, abatements, deferrals, rebates and special rules

Certified Fiscal Plan's efforts to realize budget savings and efficiencies and enhance the delivery of Government services

14.2 OCFO structure and agency efficiency measures

14.2.1 Future state structure

To enable this degree of centralized management, these functions must be concentrated under a single individual: the Chief Financial Officer currently responsible for overseeing the OCFO. Over time, relevant responsibilities presently distributed across various Government agencies should be consolidated within OCFO.²⁵² After this consolidation, the Government should consolidate or eliminate the following agencies (*Exhibit 82*):

EXHIBIT 82: LIST OF AGENCIES IN FUTURE STATE OCFO GROUPING

1 Department of Treasury (Hacienda)	4 Treasury (internal entity)
2 Office of Management and Budget	5 General Services Administration
3 Office of Administration and Transformation of HR	6 Fiscal Agency and Financial Advisory Authority ¹

Limited legislative support for OCFO consolidation and various delays around standardizing and upgrading financial systems have placed the broader benefits of a consolidated OCFO at risk. The Government has not complied with original deadlines to consolidate the requisite agencies under the OCFO. Although Executive Orders can facilitate initial reforms, a broader legislative and administrative overhaul conforming to the parameters set forth within the 2021 Fiscal Plan and PROMESA is necessary to establish an effective OCFO capable of executing the responsibilities and wielding the authority outlined above. And, while Act 73-2019 marks a step in the right direction, its primary benefits (improved visibility and budgetary controls) are contingent upon IT system upgrades and the creation of procurement boards that have yet to be realized.

²⁵² These agencies include but are not limited to: The Department of the Treasury, the Office of Management and Budget, the Government Development Bank (scheduled to be liquidated), the Office of Administration and Transformation of Human Resources, and the General Services Administration. AAFAF remains a separate entity per Government plans as of May 2020 but is included in OCFO agency efficiencies section for presentational purposes

Enabling improved financial stewardship

- **GSA centralized procurement staff and implementation (~\$6 million per year):** Starting FY2021 onwards, GSA has been funded with the staff needed to rapidly centralize procurement across the Government, focusing real effort on identifying opportunities to consolidate contracts, bring increased insight into spending, facilitating coordinated and rigorous vendor management, among other best practices.
- **Civil Service Reform Pilot:** The 2021 Fiscal Plan includes \$10 million in funds during FY2022 for a civil service reform pilot program (Pilot) to achieve an aligned and sustainable human capital strategy to meet future financial reporting challenges at the Commonwealth. The goal of this Pilot would be to design a workforce with the right people, the right skills, and the right mix to support, optimize, and transform financial management at the Commonwealth. The Pilot would cover financial and accounting positions at Hacienda and OMB and finance departments at PRDE, DCR, DOH and DPS. These human capital investments will enable swift implementation of the OCFO.
- **ERP implementation (\$36 million):** In FY2021, capital expenditure funding was provided for the implementation of a new Government ERP system -- \$14 million for Wave 1 and \$22 million for Wave 2 after the completion of Wave 1. However, Hacienda was unable to complete the required milestones during FY2021 and were not able to access the aforementioned funding.

14.2.2 Hacienda process streamlining and personnel rightsizing

By FY2022, Hacienda must attain a 15% net reduction (25% gross) in overall costs (approximately \$33 million or \$55 million gross).²⁵³ To do so, Hacienda should:

- Partner with private banks to reduce its real estate and personnel footprint
- Optimize non-personnel and procurement spend (e.g., support service consolidation)
- Digitize and optimize general processes to capture operational efficiencies

40% of Hacienda's gross cost reduction (approximately \$22 million) should be reinvested to bolster compliance activities and capabilities by:

- Hiring additional full-time employees for compliance activities (e.g., collection centers)
- Funding relevant technology investments to improve collection and reporting (e.g., fix challenges with SURI platform)
- Strengthening its in-house accounting capabilities and reduce its reliance on contracted accounting services
- Rolling out its internal ERP program

To-date, Hacienda has made progress in streamlining its processes, primarily by finalizing the roll out of the SURI digital platform and leveraging said platform in rolling out COVID-19 benefits. The agency has also been rightsizing its personnel with headcount decreasing by ~12% between FY2018 and FY2020. However, further improvements are needed in order to meet the FY2022 personnel target without compromising on its service quality.

During FY2021, additional resources were made available to Hacienda for hiring accountants; however, only ~12% of available funding has been used. Additionally, the ERP roll out has been delayed with Wave 1 (i.e., Hacienda's internal roll out) yet to be completed even though the Prior

²⁵³ For instance, a transformation within Her Majesty's Revenue and Customs agency (United Kingdom) reduced costs by 25% over a five-year period through a series of management initiatives, including IT cost reductions, realized operational efficiencies, reduced real estate footprint, and overall process improvements; see National Audit Office, "Reducing Costs in HM Revenue & Customs," 2011

Administration had already spent \$57 million on ERP-related consulting contracts over the past four years alone. The implementation of a centralized OCFO presents a valuable strategic opportunity to create a new Project Oversight structure over the implementation of the ERP to help address concerns over management direction and staff availability and commitment to the ERP implementation still need to be addressed, which are necessary for the success of the project.

14.2.3 ERP implementation status and actions needed

The successful implementation of a new ERP system can help drive changes in processes and at all levels of organizations. In Puerto Rico, the Government's ERP roll out has been consistently delayed with its initial wave (i.e. Hacienda's internal roll out) yet to be completed, despite prior administrations spending \$57 million on ERP-related consulting contracts over the past four years. The implementation of a centralized OCFO presents an opportunity to create a new Project Oversight structure over the implementation of the ERP to help address concerns over management direction, internal capacity, and staff commitment to the project.

The Government must document and standardize all processes that lead up to recording transactions and must replace processes that are redundant or inconsistent with those contained in the new ERP. Prioritization must take place to cleanse data that is inaccurate or inconsistently recorded in various parts of the organization later to be used for financial analyses and management decision-making. As these processes change, so do the roles of the people executing them, providing an opportunity to consolidate functions. During the process of implementing a new ERP system, the OCFO must educate all individuals involved in the transaction flow on the importance of their role to the overall integrity of the new ERP. The Government should not be automating inefficiencies, but rethinking the processes to take maximum advantage of the controls built into the new system and be constantly vigilant at pushing back on modifications allowing for old processes and procedures to continue. In this way, the implementation of ERP can be a key driver of efficiency and accuracy of financial functions.

Puerto Rico's ERP implementation process has suffered many cost overruns and implementation delays. Although there have been some factors outside of the control of Commonwealth's management, such as natural disasters, the project has:

- Lacked the basic day to day management control and involvement at all levels;
- Been driven mainly by contractors; and
- Misaligned with future state considerations of the Commonwealth's financial operations

The execution and future successful implementation of the recently enacted Executive Order 2021-018 issued by the Governor on March 2021, which expresses a commitment to fundamentally change the financial management of the Commonwealth, demonstrates a commitment from the Commonwealth to refocus its attention on the implementation of the ERP system and the improvements its successful implementation could drive.

Before the project's implementation there are several basic underlying and structural project oversight mechanisms that should be established. The OCFO must:

- Create an Executive Project Steering Committee Chaired by the CFO and composed of other executive level officials to oversee implementation;
- Create an ERP Implementation Team headed by the Commonwealth's project manager. Members of this team should be dedicated to this project on a full-time basis;
- Agree on a project plan with milestones and budget for completion of Wave 1 and projections of total project completion of subsequent Waves before restarting Wave 1; and
- Reassess the full project timeline and cost and impact of lessons learned in Wave 1 implementation at the conclusion of Wave 1.

The Commonwealth is expected to limit its reliance on contracted resources to assist with the implementation of the ERP. In fact, the Commonwealth must assure it has access to and can

maintain all of the consultant's work product that are key to the project's successful implementation. In developing the system, the Commonwealth must retain the project decision-making role, and to do so must be in a position to supervise and oversee the work of the contractor. The contractor's role should be clearly understood and documented, and any additional work of an operational nature should be scrutinized as to why it is not able to be performed by Commonwealth staff and the plan to migrate that work away from contractors to internal staff over time.

During FY2021, additional resources were made available to Hacienda for hiring accountants; however, only ~12% of available funding has been used. Additionally, the ERP roll out has been delayed with Wave 1 (i.e., Hacienda's internal roll out) yet to be completed even though the Prior Administration has already spent \$57 million on ERP-related consulting contracts over the past four years alone and indicated that Wave 1 completions was only weeks away only to find out that completion was further delayed. The implementation of a centralized OCFO presents a perfect opportunity to create a new Project Oversight structure over the implementation of the ERP to help address concerns over management direction and staff availability and commitment to the ERP implementation still need to be addressed, which are necessary for the success of the project.

EXHIBIT 83: ERP REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Deadline	Status / FY22 Budget Incentive
To be completed in FY2021	<ul style="list-style-type: none"> Create an Executive Project Steering Committee, chaired by the CFO and composed by other executive level officials to oversee the implementation 	May 2021	Not Started
	<ul style="list-style-type: none"> Designate project management team (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis 	August 2020	Delayed - June 2021 (\$4.4M for Wave 1 implementation) ¹
	<ul style="list-style-type: none"> Provide to the Oversight Board a project plan with milestones and budget for the completion of Wave 1, and project completion of subsequent Waves before initiate Wave 1. 	June 2021	Not Started
To be completed in FY2022	<ul style="list-style-type: none"> Complete ERP Wave 1 implementation for the internal ERP system at Hacienda. 	September 2020	Delayed - August 2021
	<ul style="list-style-type: none"> Reassess the full project timeline and fees based on the results achieved in Wave 1. Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1 	August 2021	Not Started

¹ FY2021 budget incentives: Provide additional \$4.4M for capex related to ERP Wave 1 implementation)

14.2.4 Other OCFO personnel and non-personnel efficiencies

The Office of Management and Budget (OMB), the Office of Administration and Transformation of Human Resources (OATRH, by its Spanish acronym), and the General Services Administration (GSA) must also achieve significant savings as part of their consolidation under OCFO.

By FY2021 the OCFO was supposed to implement, but has yet to fully roll out procurement reform, centralizing Government-wide procurement processes and procedures at GSA, ultimately driving expected procurement savings across agencies.

During FY2021 the Government focused efforts on implementing the Procurement Reform Act by appointing required leadership positions such as a Chief Procurement Officer, a Bidding Official

and a centralized Bid Board, and by formalizing the Uniform Regulation for Purchases and Bids of Goods, Works and Nonprofessional services. Additionally, GSA is in the midst of transferring procurement employees from Central Government agencies as provided for in a circular letter published in January 2021. Although these milestones have advanced procurement centralization that should be continued during FY2022, savings have not yet been materialized given delays in reform implementation. For example, critical agencies, such as PRDE, that would drive efficiencies have not fully transitioned to the centralized procurement model.

Notwithstanding these efforts, the realization of OCFO efficiencies is currently delayed. These delays are tied to several factors: the absence of a plan to consolidate shared services, the lack of an HR management system, and the Government's movement of the OCFO within AAFAF and later to Hacienda. To achieve the 2021 Fiscal Plan savings projections, OCFO reforms must be implemented at the pace outlined below in *Exhibit 85*.

14.3 Looking ahead – efficiency savings to be achieved and required implementation actions

OCFO must continue driving consolidation and other reforms, as detailed in the previous section, in order to achieve the annual run-rate savings through FY2026 outlined in *Exhibit 117*. During the 2021 Fiscal Plan period, personnel efficiencies must continue to deliver run-rate savings of \$26 million and non-personnel efficiencies of \$73 million by FY2026.

EXHIBIT 84: OCFO MEASURES SUMMARY OF IMPACT

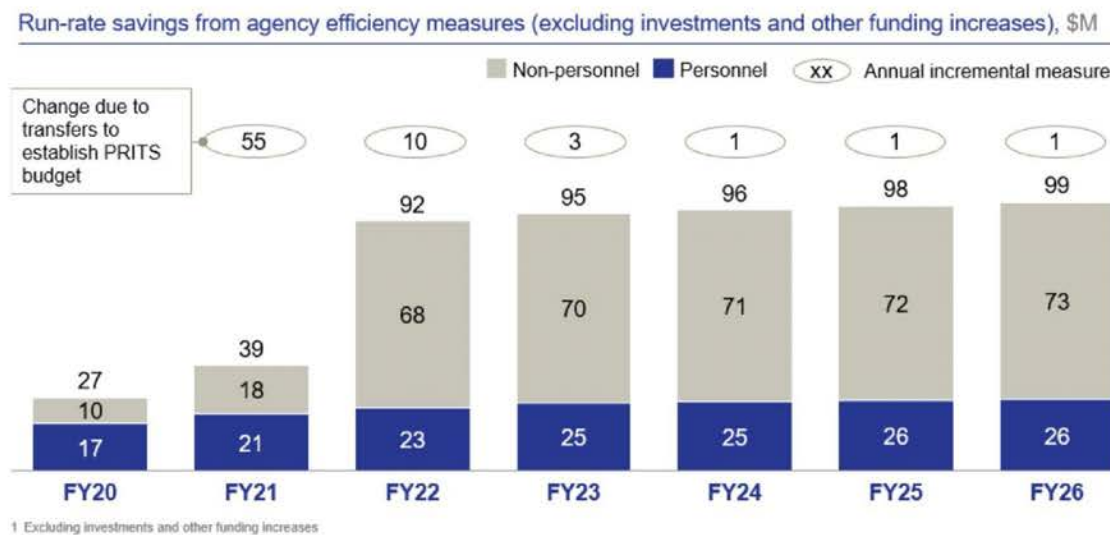


EXHIBIT 85: OCFO REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Deadline	Status / FY22 Budget Incentive
To be completed in FY2021	<ul style="list-style-type: none"> Transfer DC plan funds from 2017 onward (located in temporary trust) into newly created segregated accounts, including payroll transfer of the employee contributions to the new DC account¹ 	<ul style="list-style-type: none"> Quarterly progress 	<ul style="list-style-type: none"> Completed
	<ul style="list-style-type: none"> Publish the 2018 Audited Annual Report 	<ul style="list-style-type: none"> June 2021 	<ul style="list-style-type: none"> On track
	<ul style="list-style-type: none"> Provide an action plan for the audit process and publication of the 2019, 2020, and 2021 Audited Annual Reports 	<ul style="list-style-type: none"> June 2021 	<ul style="list-style-type: none"> On track / Release \$1.5M for professional services
To be completed in FY2022	<ul style="list-style-type: none"> Create and recruit associate Chief Financial Officer positions for the following groupings: (a) Economic Development, (b) Education, (c) Health, (d) Housing, (e) Public Safety and (f) Justice, whose authority would fall under the OCFO pursuant to enabling legislation 	<ul style="list-style-type: none"> December 2020 	<ul style="list-style-type: none"> Delayed - September 2021
	<ul style="list-style-type: none"> Ensure passage of legislation to enable consolidation and empower OCFO to act as the central authority over finance, budget, human resources, audit, etc.¹ 	<ul style="list-style-type: none"> December 2020 	<ul style="list-style-type: none"> Delayed - December 2021
	<ul style="list-style-type: none"> Publish the 2019, 2020, and 2021 Audited Annual Reports 	<ul style="list-style-type: none"> December 2021 	<ul style="list-style-type: none"> On track
	<ul style="list-style-type: none"> All entities covered under Act 73-2019 must submit Annual Acquisition Plan to GSA, as provided for in Circular Letter 2021-04 	<ul style="list-style-type: none"> March 2022 	<ul style="list-style-type: none"> On track

¹ For all entities supported by the General Fund or dependent on the Government's taxing authority

Chapter 15. Agency efficiency measures

In accordance with Section 201(b)(1) of PROMESA, the Fiscal Plans for Puerto Rico “provide a method to achieve fiscal responsibility and access to the capital markets.” When the Fiscal Plan process began in 2017, the Government had approximately 16,500 employees across 114 Executive, Legislative, and Judicial branch government agencies, excluding large instrumentalities.^{254,255,256} These agencies **were ineffective and inefficient at delivering the services needed by the people of Puerto Rico, while consuming resources that were outsized compared to the population served.**

Even now, compared with U.S. states serving similar populations, Puerto Rico remains an outlier in terms of the sheer number of agencies. For example, as of 2018, Connecticut had only 78 state agencies, while Iowa had just 36. Staffing and managing an organization of this size is highly challenging and complex, even in a stable fiscal and economic environment. With over 100 direct reports to the Governor, it has been a practically impossible management task. **In addition, notwithstanding the amount of spending, there are countless examples of subpar service delivery across the Government.** For instance, despite having six agencies primarily dedicated to the financial stewardship of the Island, the Government has been unable to consistently issue consolidated audited financial statements on a timely basis. Further, Puerto Rico's education system has a record of consistently delivering unsatisfactory student outcomes,

²⁵⁴ These include Puerto Rico Electric Power Authority (PREPA), Puerto Rico Aqueduct and Sewer Authority (PRASA), Highways and Transportation Authority (HTA), University of Puerto Rico (UPR), Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC, by its Spanish acronym), and the Government Development Bank (GDB)

²⁵⁵ Excludes transitory employees.

²⁵⁶ Excludes agencies which currently have \$0 operating budget and no employees.

including below- U.S. mainland average graduation rates and standardized test scores that are far below basic proficiency levels.

To assure the delivery of essential services while achieving financial sustainability, **the Government must focus on operational efficiencies to enable better service delivery in a cost-effective way.** A leaner, more efficient, and transformed future Government of Puerto Rico should wherever possible reflect mainland U.S. benchmarks in terms of both number and size of agencies.

As part of the new Government model, the Government must conclude the process of consolidating the over 110 agencies into **no more than 49 agency groupings and independent agencies** (see *Section 25.2*). In some cases, these consolidations should better focus the competing efforts of multiple agencies, such as the Economic Development grouping, which is consolidating ten agencies into one. In other cases, the consolidations should serve to move services closer to residents, such as the Healthcare grouping, which will consolidate access points to important services like Medicaid. In all cases, consolidations will enable agencies to streamline back-office processes, eliminate duplicative resources and benefit from procurement efficiencies.

In addition to agency consolidations, the 2021 Fiscal Plan outlines operational and process improvements that must be made to more efficiently use resources—including staff, equipment, services, and buildings—across agency groupings such as Education (PRDE), Corrections (DCR), Health (DOH), and Public Safety (DPS). The goal of such efficiency measures is to improve the quality of the underlying services for the population while also directing valuable resources toward priorities and achieving the cost savings needed to balance the Government budget.

These measures were developed through an iterative process with the Government and are designed to ensure compliance with necessary savings targets without compromising the quality of public service delivery on the Island—and actually improving it in many cases. These include various agency-specific efficiency (rightsizing) measures as well as certain government-wide savings measures:

- **Agency-specific personnel measures:** Personnel efficiencies specific to each agency (e.g., back-office consolidation, process re-engineering to enable headcount rightsizing and aligning resources with mainland U.S. state benchmarks) that will enable the reduction of payroll expenditure levels
- **Agency-specific non-personnel measures:** Operational efficiencies specific to each agency (such as procurement centralization and optimization of spend, consolidation of facilities) that will enable the reduction of non-payroll expenditure levels
- **Government-wide compensation measures:** Standardization of personnel policies throughout government (including institution of a standard employer healthcare contribution, a hiring freeze, a payroll freeze, elimination of the Christmas bonus and prevention of carryover of sick/vacation days beyond the statutory caps) to enable the reduction of payroll expenditures across agencies even without reducing employees
- **Government-wide non-personnel measures:** Utilities efficiency improvements and conscious usage of electricity and water (e.g., PREPA and PRASA) to result in savings on utility expenses. Further, reductions of professional services to enable the professionalization of the civil service and reduce reliance on outside consultants. Finally, elimination of ‘englobadas,’ or less transparent spending to improve fiscal controls and accountability.
- **Budgetary adjustments and other funding:** Adjustments made on an annual basis to reflect new information obtained during the budget process. These include funding to ensure Government agencies meet federal requirements (e.g., consent decrees), provide quality front-line service delivery, and to reflect changes in agency operating needs.

- **Investments:** Agency-specific one-time or recurring funding provided to enhance service and improve the fiscal and financial management of the Government (such as the Pilot phase of the Civil Service Reform), to improve the tourism and economic activity of the Island (such as the hosting of the Central American and the Caribbean Games²⁵⁷), provide quality front-line service delivery (by continuing to fund pay raises to teachers, firefighters, police), enhance growth and labor productivity (such as through scholarships for UPR students, and funds for workforce development programs) and focus on implementation of efficiency measures.

To date, the Government has unfortunately failed to demonstrate meaningful progress in implementing agency consolidations or otherwise improving operational efficiency, though it has generally met budget targets. The Government has also struggled to properly activate several investments provided by the Oversight Board.

To achieve personnel savings, the Government has primarily utilized broad-based early or incentivized retirement programs (e.g., the Voluntary Transition Program and Voluntary Pre-Retirement Program),²⁵⁸ (Law 211-2015, as amended)), instead of driving optimization of back-office roles²⁵⁹ or alignment of front-office roles with mainland U.S. states' benchmarks (e.g., State Elections Commission personnel). Furthermore, the Government's efforts through these untargeted retirement programs have encouraged critical personnel to retire early leading to large payouts with high retirement rates, major gaps in skills and capabilities, and a slower, less effective government.

To achieve non-personnel savings (required since FY2018), the Government started to make changes during FY2021 to its procurement processes. FY2021 was the first year that the General Services Administration (GSA) received a General Fund allocation to carry out procurement centralization. The agency has managed to centralize some contracts and has begun to transition procurement employees across Central Government agencies. The GSA has also started assessing Government-wide procurement needs to attain efficiencies and achieve savings. Despite this consolidation of certain contracts across agencies, GSA claims it will take additional time to complete procurement centralization and achieve material savings. Additionally, procurement efforts have not been appropriately aligned with the consolidation of physical locations of operations, causing inefficient spending to continue longer than necessary. For example, utility expenses at closed schools have largely continued even though the schools are unused, and officers continue to be staffed to guard closed correctional facilities.

Finally, some funds have gone unspent or been utilized ineffectively. While there is some progress—DCR, for example, has successfully used funds provided to start its review of habitable spaces to enable prison consolidations, and salary raises have been provided to frontline police officers—there have been struggles in implementing many investments. For example, PRDE misspent funds for raises to teachers and directors in FY2019 and FY2020, leading to a costly lawsuit and delays in providing raises. Similarly, funds for a Firefighter Academy have only been used partially (not to the extent budgeted for) due to the inability of the Firefighters to establish a successful program to date. Funds for healthcare IT and capital expenditures have also gone largely unspent, though the procurement process has been initiated for most initiatives. And funds provided for FEMA Disaster Relief Funding cost share have been redirected to other uses, such as funding to cover state share of projects that are not disaster related. These are just selected examples among many. To truly enhance efficiency and effectiveness, these funds should be deployed – and deployed correctly – as soon as possible.

In addition to the above, the 2020 Fiscal Plan allocated **\$73 million of implementation budget incentives in FY2021 for PRDE, DCR, DDEC, DOH, Hacienda, and AAFAF to**

²⁵⁷ Funding subject to a determination on the availability of federal funds i.e., American Rescue Plan (ARP) Act

²⁵⁸ Law 211-2015, as amended

²⁵⁹ e.g., Through reduction of duplicate administrative roles in DCR or centralizing back-office operations in the Office of the Chief Financial Officer (OCFO)

accelerate transformation of core government services and encourage progress in high priority areas, including but not limited to meeting higher data quality and transparency standards, conducting operating model/capacity analyses, and building up essential infrastructure to facilitate process improvements. Agencies that completed full implementation of certain required actions for specific projects by the stated deadline would be eligible to receive budget incentives upon certification by the Oversight Board. **DDEC and AAFAF completed the required actions** within the determined deadline, making them eligible for the budget incentive. **However, PRDE, DOH, and Hacienda did not meet the requirements to comply with the implementation** of required actions within established deadlines. As such, these agencies lost the budget incentive. Many agencies like DOH and DCR, on the other hand, requested a deadline extension for the budget incentive due to delays in their procurement processes.

The implementation of 2021 Fiscal Plan initiatives and measures is required to achieve operational efficiency and improve government services. More than ever, given the significant influx of federal funding received as a result of natural disasters and the COVID-19 pandemic, all agencies must develop a long-term financial plan by December 2021 to serve as a concrete working plan to allocate State and federal resources in order to meet short and long-term objectives. A comprehensive long-term financial plan must have clear milestones, deadlines and actions that account for agency needs (short and long-term), while also focusing on implementing crucial agency efficiencies detailed in this chapter.

15.1 Agency operational efficiencies and improvements

The 2021 Fiscal Plan continues to outline savings the Government is expected to achieve through both agency-specific and government-wide personnel and non-personnel measures.

15.1.1 Agency-specific personnel and non-personnel efficiency measures

There are several actions that have been applied to each agency to achieve these targets:

- **A series of agencies must be merged** when benchmarking and best practices determine that activities across agencies could be better served through a single mission and management to eliminate redundancies, and/or where economies of scale make shared services more economical without reducing quality of service
- **A small subset of agencies will be left independent but must be made more efficient** through a series of streamlining efforts related to both personnel and operations, allowing the agencies to provide improved services at a lower cost to taxpayers
- **Some agencies will be closed completely or privatized** if their function and programs are not required, or can be transferred to private ownership, resulting in a 100% personnel and non-personnel savings for all non-federal funded expenditures after a two to three-year wind-down period (a minimum of 50% savings must be achieved no later than year two). The Government proposed three agencies for closure: Model Forest; Culebra Conservation and Development Authority;²⁶⁰ and Company for the Integral Development of Cantera's Peninsula;²⁶¹
- Additionally, the 2021 Fiscal Plan requires **the transfer of ownership or change in legal status of the Public Broadcasting Corporation (WIPR)** to a not-for-profit organization.

²⁶⁰ Agency will only be partially closed, so funding will be reduced by 32% overall starting in FY2020. No progress to date

²⁶¹ To be closed on July 1, 2033 per current law.

The 2021 Fiscal Plan lays out three major types of areas of operational efficiency across all agencies (whether consolidated or kept independent, but made more efficient):

- **Back-office personnel savings:** Achieve process efficiencies, centralization, and/or digitization of redundant tasks and eliminate role duplications in administrative positions. These levers have demonstrated savings of 15-20% in entities undergoing mergers
- **Front-office personnel savings:** Achieve personnel efficiencies by ensuring staffing levels are consistent with operational drivers with benchmarks from mainland U.S. states
- **Procurement/non-personnel savings:** Achieve operational efficiencies through contract renegotiations, reduction of rent payments, bundling acquisition across agencies, and other initiatives. Similar reforms of this nature have been shown to create savings of 10-15% for public and private sector entities

The Oversight Board and the Government established a working group in 2018 to develop the roadmap for these rightsizing efforts, which became the basis for the Fiscal Plans. For several of the larger agency groupings (i.e., PRDE, DOH, DPS, DCR, DDEC, and OCFO), the 2021 Fiscal Plan lays out specific reforms that are expected to be implemented in each of these areas. For other agencies, the 2021 Fiscal Plan sets savings targets that agencies are expected to achieve through their own operational improvement plans. Finally, while the Government has indicated that some consolidation plans may change, the Government shall still be responsible for achieving the total annual savings projected in the 2021 Fiscal Plan.

Furthermore, Act 73-2019, as amended, requires all Government entities to prepare an Annual Procurement Plan based on the agency's annual estimate of probable needs and purchases, using as reference the purchases made during the previous fiscal year. The plan must include a list of all goods, works and non-professional services that are considered necessary for the next fiscal year. GSA is responsible for publishing annual guidelines for the preparation of such plan, which must be submitted to GSA by March 31st of each year. Going forward, all agencies must comply with this requirement, which in turn will allow them to obtain an understanding of the purchases to be made during the year, identify potential savings, ensure compliance with budget targets, and flag opportunities to improve current processes and procedures. Although Act 73-2019 does not require the agencies to prepare a plan for annual professional services, they must in fact prepare a similar plan that details all professional services to be contracted by them during the fiscal year in order to obtain similar benefits.

15.1.2 Cross-cutting personnel measures

In addition to driving operational improvements specific to service delivery, the Government is expected to achieve cross-cutting personnel expenditure reductions through several initiatives which would reduce the requirement to reduce personnel:

Maintaining a payroll freeze: The March 2017 Fiscal Plan included a measure (which became law in FY2018) to freeze all payroll expenditures. To extend the savings from freezing payroll increases and minimize further rightsizing of staff, the freeze must be continued through the end of FY2023.

Standardizing healthcare provided to government employees: Medical insurance is a core benefit provided to all government employees. However, the degree of coverage varies widely across government agencies, with some employees receiving superior coverage compared to their peers. For instance, PRDE employees receive an average of \$120 per month in medical benefits, whereas employees of the Housing Finance Authority receive on average over \$730 per month.²⁶² To ensure fairness and reduce expenditures, the Government must implement its proposal to **standardize employer health insurance contributions so that all Commonwealth**

²⁶² Per latest FY2021 Housing Finance Authority payroll roster.

agencies contribute \$125 per employee per month, or \$1,500 per year.²⁶³ This initiative should have been fully implemented by the start of FY2019, but the Government has failed to implement it to date. Compliant with the 2021 Fiscal Plan, the annual budget includes an appropriation to cover the healthcare contribution up to \$125 per employee per month.²⁶⁴

Reducing additional outsized non-salary compensation paid to employees: There are several policies that the Government must continue to enforce through the duration of the 2021 Fiscal Plan that will impact personnel spend. These include:

- Asserting a hiring freeze with stringent requirements for backfilling positions left open by attrition or workforce reduction
- Limiting paid holidays to 15 days annually across all public employees
- Prohibiting carryover of sick and vacation days between fiscal years over the statutory caps (60 days for vacation and 90 days for sick leave, aligned with Act 26-2017)
- Prohibiting any future liquidation of sick and vacation days in excess of the amount of days permitted by law
- Eliminating funding for the Christmas bonus

The hiring freeze measure has been included in the Fiscal Plans since the March 2017 Fiscal Plan. The 2021 Fiscal Plan continues to require the policy, while also requiring the Government to propose stringent requirements for the backfilling of any opened positions, and to gain budgetary approval by the Oversight Board before the requirements are implemented.

The other measures outlined above were enacted in Act 26-2017, except for the elimination of the Christmas bonus. The elimination of the Christmas bonus was to be implemented starting in FY2019, but unfortunately the Government paid the bonus without approval from the Oversight Board. In FY2021, the Oversight Board reached an agreement with the Government of Puerto Rico to pay employees the Christmas bonus as long as it was done within the existing contours of the Commonwealth FY2021 Certified Budget. Certified Budgets do not include funding for the Christmas bonus.

15.1.3 Cross-cutting non-personnel measures

In addition to driving operational improvements specific to service delivery, agencies should reduce spend on utilities, as well as on other areas of the budget which have been historically “opaque” in terms of where funds are flowing:

- **Reducing utility spend over time:** The Government should implement energy efficiency initiatives that reduce utility payments in line with mainland energy efficiency efforts such as the U.S. Federal Energy Management Program (FEMP). Energy efficiency initiatives would include facility & fleet optimization (e.g., recycling), improved procurement agreements, and strategic investments, potentially through utility capital expenditure. By FY2023, the Government must achieve savings of 15% on its FY2018 utilities expenses, considering the rate increases projected by PREPA and PRASA. While savings associated with this measure were paused for FY2021, they have been reinstated for FY2022.
- **Reducing spend on historically low-visibility areas:** The Government should continuously monitor and reduce expenses in historically low-visibility areas (e.g., “unclassified professional services” and “englobadas”). The 2019 Fiscal Plan required a one-time and government-wide 10% incremental cut on professional services spend and 10% limit to unclassified professional services. While no incremental cut is explicitly required in

²⁶³ The exception is public corporations, which should maintain current employer contribution levels for those employees with chronic pre-existing conditions. There are also exceptions based on the recent Plan Support Agreement.

²⁶⁴ The exception is public corporations, which should maintain current employer contribution levels for those employees with chronic pre-existing conditions. There are also exceptions based on the recent Plan Support Agreement.

FY2021, the Oversight Board continues to expect more rigorous documentation and justification for such spending before approving its inclusion in future agency budgets. The 2021 Fiscal Plan will maintain the 10% limit on unclassified professional services.

As with prior Fiscal Plans, this 2021 Fiscal Plan includes implementation exhibits that date back to Fiscal Plans certified in 2018 (starting *Chapter 7*). These exhibits continue to show implementation dates that have been passed without Government completion of the action. The Government must act as soon as possible to address these missed milestones and to accelerate the pace of change. This 2021 Fiscal Plan therefore lays out future dates for missed milestones, by which the Government must implement the actions.

15.2 Investing to support agency efficiency and recovery

The 2021 Fiscal Plan includes new incremental funding to support the Government in its efforts to operate effectively and sustainably. These include:

- **Investments in frontline service delivery:** The 2021 Fiscal Plan includes several incremental investments in frontline service delivery, including compensation and benefit raises for police officers, support for Special Education therapy, and teacher compensation; funds to attract additional recruits to the Emergency Medical Services Corps and Institute of Forensic Sciences; and investments in healthcare, including funds for opioid treatment, telehealth, electronic health records, hospital capital expenditures, scholarships for medical students who commit to practice outside of major metro areas, and additional school nurses.
- **Support for accelerating operational improvements:** The Government's lack of progress on operational changes to date has created a risk to government services delivery, especially given the effects of the recent earthquakes and COVID-19. The 2021 Fiscal Plan includes implementation budget incentives that would become available when certain milestones are accomplished (e.g., consolidation of back-office functions).
- **Funding to enable consent decree compliance:** Several Puerto Rico Government agencies are subject to federal consent decrees that require them to adhere to certain regulations. These consent decrees often mandate funding requirements (e.g., certain funding levels to Special Education students). The 2021 Fiscal Plan includes funding for all consent decree requirements of which the Oversight Board is currently aware.
- **Funding for agency priorities:** The Government's proposed initiatives include investment such as the fourth phase of "Abriendo Caminos" infrastructure improvement program and additional funding for regular maintenance programs for the road infrastructure (Department of transportation and public works), hire additional personnel for Specialized Domestic Violence, Sexual Crimes and Child Abuse Units (Department of Justice), increasing funding for the Comprehensive Cancer Center and support to host Central American and Caribbean Games²⁶⁵ as stimulus to post-COVID local and international tourism and general economic activity.
- **Funding for Civil Service Reform:** The 2021 Fiscal Plan includes funds for Government-wide civil service reform, as discussed in *Chapter 13*. This funding is intended to enhance training, performance management, recruitment and retention of Government employees, and thereby professionalize the public workforce.

Specific investments are detailed by agency in the following sections.

²⁶⁵ Funding for the Central American and the Caribbean Games will be made available following the selection of the host and subject to a determination on the availability of federal funds i.e., American Rescue Plan (ARP) Act

15.3 Department of Education (PRDE)

The Puerto Rico Department of Education (PRDE) is the largest government agency within the Commonwealth, with approximately 44 thousand employees, charged with providing high quality education for approximately 276 thousand K-12 students across the Island at 858 schools. However, as *Chapter 8* indicates, PRDE has struggled to improve educational outcomes for its students and to operate at a size commensurate to its student enrollment.

As discussed in *Chapter 8*, a significant factor driving PRDE's subpar outcomes is **a set of underlying bureaucratic systems and structures that are ineffective and inefficient**. Simply stated, PRDE has not developed the internal capacity, or led with commitment to a clear plan to manage the complex educational dynamics in Puerto Rico. As the largest agency by both personnel headcount and budget dollars, PRDE is outsized relative to its results and needs. While student enrollment has declined considerably over the past few decades (over 50% decline since its peak in 1980 and approximately 33% in the past decade) in line with a declining population, prior to the 2017 Fiscal Plan, the number of schools and teachers had not decreased proportionally.^{266,267} Furthermore, although regional offices are up and running, they currently function more as an additional layer of bureaucracy, rather than as mechanisms to drive change and shared learning closer to the student and parent populations in schools.

The Oversight Board has made a number of suggestions to help PRDE operate in more strategic ways while aiming to fulfill its core function of driving a more efficient and cost-effective educational delivery model. The one year pause on agency efficiency measures during FY2021 presented PRDE with the opportunity to start implementing necessary reforms; however, the Department was unable to move these initiatives forward, in part due to its focus on managing through the operational challenges faced during the COVID-19 pandemic and the significant leadership turnover during the election year.

Upon preliminary review of PRDE personnel and non-personnel expenses for FY2021, it would appear that PRDE achieved some savings (e.g., the number of core teachers is aligned to 2021 Fiscal Plan targets); however, these are known to be the result of low teacher staffing levels in some areas and increased vacancies due to the remote learning environment rather than adherence to the structural changes required by the 2021 Fiscal Plan. The Oversight Board anticipates the level of savings and budget underspending to decrease as PRDE resumes full in-person instruction. In addition, the Department has not achieved progress in increasing the academic support in the regional offices or executing planned workforce reductions in other areas. This effect was deeply felt by the school community during the COVID-19 pandemic since many critical schools supports (e.g., teacher coaches or “facilitadores”, family engagement coordinators) were significantly lacking. At the same time, PRDE continues to have a deficit in some academic areas such as English. Currently, PRDE does not have an adequate number of English teachers to support students across the Island, which in turn result in schools that are sub-scale and require targeted resources, on a per student basis.

The Oversight Board recognizes that PRDE has been operating in a complex environment in the wake of Hurricanes Maria and Irma, earthquakes, and the ongoing COVID-19 pandemic. However, beyond these crises, PRDE continues to be challenged by its bureaucratic processes and the significant lack of system capacity that hinders its ability to implement necessary reforms. While *Chapter 8* offers recommendations and benchmarks to improve management capacity of the system and, in turn, student outcomes, this chapter focuses on the operational and financial process improvements required to support increased transparency and better decision-making at PRDE. While agency efficiency measures are applied to the State budget, PRDE needs to unlock

²⁶⁶ Helen F. Ladd and Francisco L. Rivera-Batiz, “Education and Economic Development in Puerto Rico” *The Puerto Rican Economy: Restoring Growth*, Brookings Institution Press, Washington, D.C., 2006, 189-238

²⁶⁷ There were 1,619 public schools in 1990 and 1,131 at the time of reporting. Oversight Board Listening Session, Secretary Julia Keleher, “On the Road to Transformation,” November 30, 2017

and strategically allocate all sources of funding. This will only be possible if PRDE has clear insight to its existing spend through improved financial reporting processes.

During FY2021, PRDE was able to finalize and sign the Third-Party Fiduciary Agent (TPFA) contract (related to Special Conditions imposed by the U.S. Department of Education (USDE) in June 2019). Failure to finalize the contract in prior years (based on PRDE's inaction) had prevented PRDE from accessing ~\$1.12 billion total from FY2021 and FY2020 USDE federal funds. However, the Oversight Board, and the Government of Puerto Rico, now expect these funds to be released during FY2022. In addition to these recurrent federal funds, PRDE received an unprecedented allocation of federal funding in FY2021 as a result of the COVID-19 pandemic and prior natural disasters. Incremental federal funds available to PRDE include:

- ~\$2.3 billion of disaster relief funding designated by FEMA to support reconstruction of damages caused by Hurricane Maria.
- ~\$4.5 billion of COVID-19 related federal funding meant to address high priority needs associated with planning for a safe return to school and offering robust learning opportunities in the case of extended in-person school closures. This amount includes various stimulus, such as:
 - ~\$349 million of Coronavirus Aid, Relief, and Economic Security Act (CARES) funds
 - ~\$1.3 billion of the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act
 - ~\$2.9 billion of the American Rescue Plan (ARP) Act
- A portion of the ~\$173 million allocated to the Governor's Emergency Education Relief Fund, authorized by CARES (~\$48 million) and CRRSA (~\$125 million).

The above funding will require a clear plan and rigorous controls to provide for the basic needs of students and families, nonetheless, these are not meant to reduce the expectation that the Department accelerate a major transformation of its operations and basic management improvements to better provide services and maintain fiscal balance. Without active management, operational improvements and leadership, PRDE will likely continue to see student outcomes stall.

The initiatives and milestones included in this chapter aim to provide a roadmap for PRDE to improve its operational efficiency and achieve savings targets required by the 2021 Fiscal Plan. **It is important to note all these initiatives were developed in collaboration with the Government and/or are based on PRDE's internal guidelines and regulations.** Given the immeasurable effects of the COVID-19 pandemic and other natural disasters on student learning, there has never been a greater need to drive operational process improvements and strategically reallocate resources to provide better services to the children of Puerto Rico.

Investments to drive operational improvements

The 2021 Fiscal Plan continues several investments that have been made in past years to ensure PRDE has what it needs to fulfill federal requirements and to enable better service delivery. These include:

- **Teacher and school director compensation (~\$285 million over five years):** The 2018 and 2019 Fiscal Plans provided salary raises for teachers and directors in FY2019 and FY2020. Unfortunately, PRDE mistakenly excluded transitory teachers and directors from these raises, which generated a lawsuit against the Department. As such, the 2020 Fiscal Plan provided the funding to cover the retroactive raises for these groups. As of March 2021, PRDE had taken the necessary steps to transfer the funds from the custody of OMB to PRDE in order to cover the FY2019 and FY2020 raises for transitory teachers and directors.

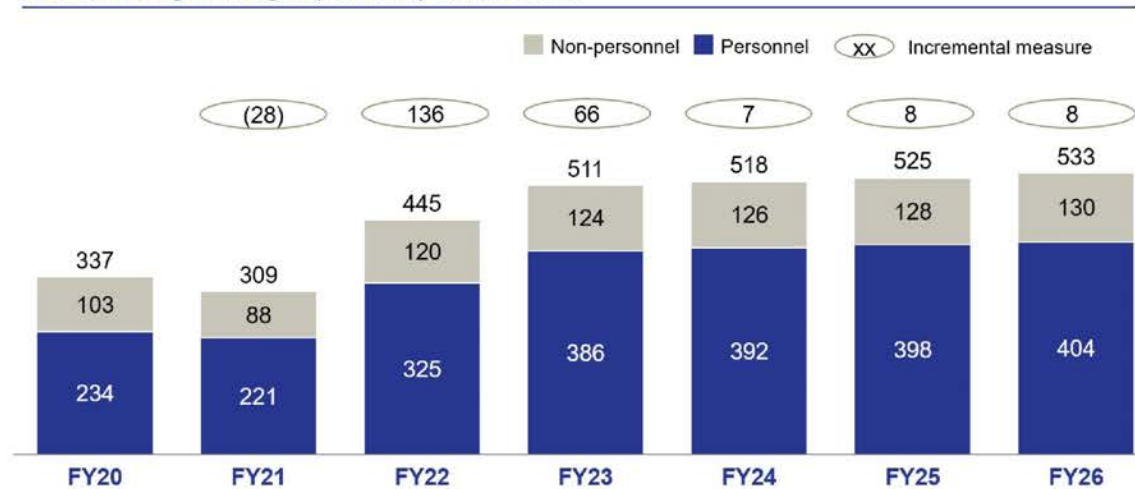
- **Special Education and Remedio Provisional program specific FY2022 budget accounting:** In addition to the funding above, the 2021 Fiscal Plan continues to ensure that PRDE is compliant with legal requirements for the Special Education and Remedio Provisional program. In order to ensure proper resources are allocated to all special education students, the FY2022 Budget for the Special Education Program and the Remedio Provisional Program will be separately presented from PRDE's overall budget. By presenting the budgets separately, the Oversight Board can ensure resources are properly allocated based on Special Education student enrollment and needs, while also ensuring greater transparency in program spending.

Overview of efficiency measures

The COVID-19 pandemic caused significant prolonged disruptions to the education system and PRDE was mainly able to focus on providing virtual education, which impacted the advancement of initiatives to proactively capture savings. To help the Government manage the COVID-19 pandemic and to progress implementation across key reforms, the Oversight Board allowed a one-year deferral on agency efficiency measures for FY2021. However, starting in FY2022, PRDE is once again required to generate personnel and non-personnel savings outlined in *Exhibit 86*. The Oversight Board is analyzing the formal guidance released by the U.S. Department of Education on how to calculate the Maintenance of Effort (MOE) requirements associated with the COVID-19 funding, and will determine what, if any, implications the MOE requirements have on the Commonwealth, UPR, and PRDE funding provided in the 2021 Fiscal Plan and FY2022 Commonwealth Budget.

EXHIBIT 86: DEPARTMENT OF EDUCATION MEASURES SUMMARY OF IMPACT

Run-rate savings from agency efficiency measures¹, \$M



¹ Excluding investments and other funding increases

15.3.1 Improving student-teacher ratio

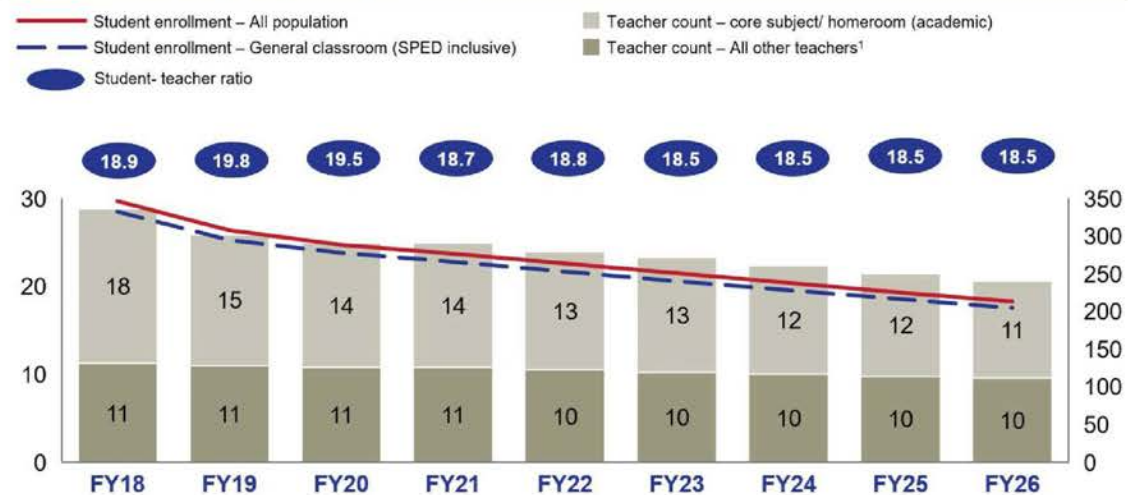
One key indicator of school efficiency is the student-to-teacher ratio (ST ratio) used across the school system. Given the need for PRDE to rightsize its resources in alignment with a steadily declining student enrollment, it should aim to manage its ST ratio to ensure improvements in efficiency. The Oversight Board recognizes that these are challenging times for the Department and that it may need to staff additional resources to address the tremendous student learning loss due to the pandemic. For this, PRDE must take advantage of the recent influx of non-recurring, non-General Fund dollars (e.g., stimulus, federal funds) to support these critical student needs through temporary staff that may not need to be incorporated as permanent positions. As described in *Section 8.3*, PRDE should protect against the possibility of this new headcount

creating a budget overspend by developing a long-term financial plan that efficiently leverages all funding sources available.

The ST ratio calculation is based on data from the Department and includes both general education students as well as Special Education students who spend most of the school day in inclusive classrooms with their general education peers (known as “salón recurso”). The teachers counted in the ST ratio are those that teach core subjects and/or homeroom classrooms.²⁶⁸ The staffing of all other teachers (previously referred to as ‘non-academic’ teachers) are expected to be rightsized through attrition.²⁶⁹

EXHIBIT 87: TEACHER HEADCOUNT AND STUDENT ENROLLMENT

PRDE historical and target teacher headcount, thousands



¹ Excludes librarians, program coordinators, counselors, or social workers

PRDE will need to monitor its teacher staffing formulas and more systematically apply its own guidelines, referred to as Organización Escolar, to assign teachers based on classroom size. Although PRDE initially assigns teachers based on these guidelines, it also allows for various exceptions which are not adequately documented. For example, PRDE may choose to retain an extra teacher in a school with declining enrollment if the teacher is not able to fill a vacant position at the current school or move to another school due to extenuating circumstances (e.g., onerous travel distance per Collective Bargaining Agreement (CBA)).

Due to the impact of the COVID-19 pandemic and remote learning, for the 2020-2021 school year, PRDE did not hire the number of teachers it would typically hire in an in-person school year. This has resulted in a ST ratio of ~18.9 for December 2020 (13.9k core teachers and 263.1k students served in general education classrooms) which is slightly better than the 2021 Fiscal Plan target of 18.7. However, as PRDE resumes in-person learning, and hires additional teachers to support it, the ST ratio is expected to decrease below the 2021 Fiscal Plan target.

²⁶⁸ Core subjects / homeroom teachers include those that teach General Education, English, Math, Science, Spanish, History, and homeroom

²⁶⁹ All other teachers include, for example, Career and Technology, PE, Arts, and Special Education teachers

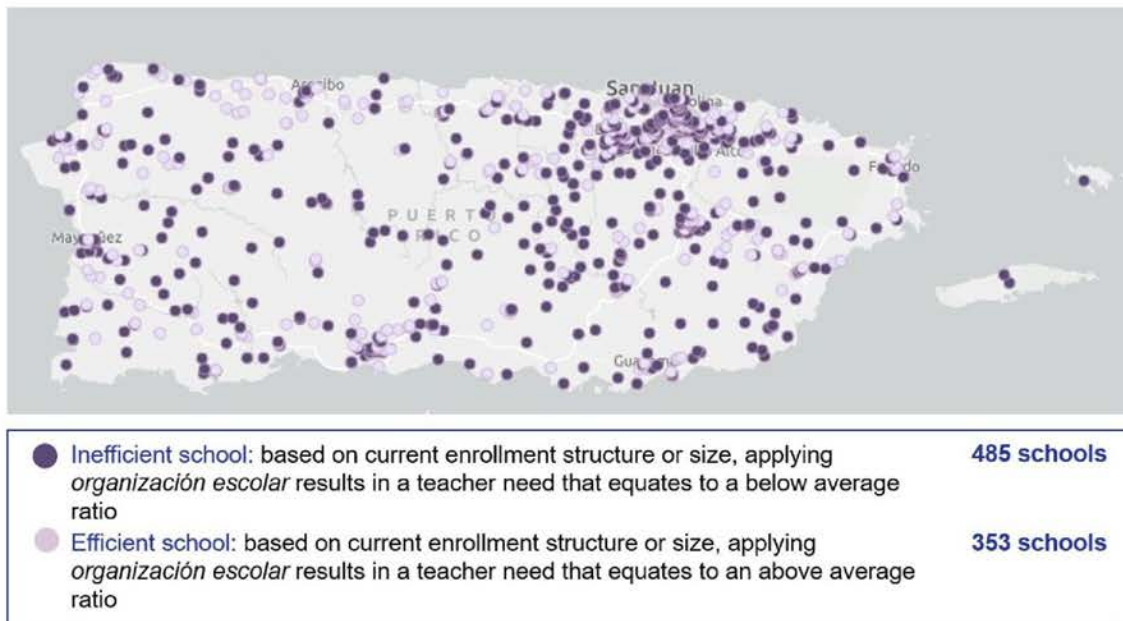
EXHIBIT 88: PRDE ORGANIZACIÓN ESCOLAR STAFFING POLICIES

	Formal policy	Implied guidelines	No implied guidelines
General Education	<ul style="list-style-type: none"> Class size maximums (PK: 16, K-3: 25, 4-12: 30) 	<ul style="list-style-type: none"> Grades 6-12: 5 classrooms per pod of 5 teachers – consisting of math, science, history, Spanish, and English teachers 	<ul style="list-style-type: none"> General Education assistants (n=80)
Specialty		<ul style="list-style-type: none"> English (K-5): 5 classes taught per day PE: 1 every 250 students Arts, Health, Career & Technology: 1 per subject per 6-8 and 9-12 grade 	
Special Education	<ul style="list-style-type: none"> Class size maximums <ul style="list-style-type: none"> Regular, reduced enrollment: 16 Full-time classroom (promotion): 12; Full-time classroom (modified): 10 Resource teachers: 25 pull-outs per day Therapists: based on individual IEP 	<ul style="list-style-type: none"> Note: Special Education class size maximums in practice are lower than stated formal policy 	<ul style="list-style-type: none"> Special Education assistants (n=5.8k) Note: Driven in large part by IEPs, but exceptions are made based on need with no firm ratios
Source / Policy	<ul style="list-style-type: none"> Organización Escolar (General Education + Special Education) Convenio Colectivo 	<ul style="list-style-type: none"> Escuela Basica HR Director guidance 	<ul style="list-style-type: none"> Decisions are made flexibly

Notes: Special Education issued their first school organization policy in FY18-19; *PRDE communicated 1 nurse per school is required by Law 85, though the language is not apparent
SOURCE: Carta Circular num. 05-2019-2020, PRDE política pública sobre la organización escolar para el programa de educación especial y los requisitos de promoción y graduación para los estudiantes con discapacidades matriculados en las escuelas del departamento de educación de puerto rico, May 2019

By following its own staffing guidelines, PRDE would be pursuing a more efficient staffing structure; however, PRDE could ultimately fall short of 2021 Fiscal Plan targets over time given that many schools operate at inefficient enrollment levels and thus incur in significant “breakage” (i.e., underutilized teachers). For example, if a school has 36 students in third grade, that school will need two third grade teachers with classrooms of 18 students each, even though those teachers could theoretically teach an additional 7 students each, (i.e., up to 25 students per class), per *the Organización Escolar* guidelines. This type of situation is pervasive across the Island: in FY2020 only 40% of PRDE’s schools operated at roughly efficient school size (see *Exhibit 89*). These schools are geographically dispersed across the Island with inefficiencies existing in all regions and urban/suburban/rural areas. The issue can be best addressed with active footprint management, taking into consideration geographic and student demographic constraints.

EXHIBIT 89: MAP OF PRDE SCHOOLS BY ABILITY TO ACHIEVE EFFICIENT STAFFING



As enrollment is projected to decline by 4-5% each year through FY2026 (due to overall Island population decline), this issue of breakage will worsen, with schools increasingly less able to maintain efficient staffing levels. While the 2021 Fiscal Plan does not require additional school closures (which would reduce breakage in the system), it is nonetheless important to acknowledge the personnel (and operating) costs of managing a school system where capacity exceeds enrollment. PRDE has the opportunity to assess its existing school footprint and long-term plan through the Facilities Master Plan which will need to be prepared to assess the ~\$2.3 billion of disaster relief funding designated by FEMA to support reconstruction of damages caused by Hurricane Maria.

EXHIBIT 90: REQUIRED IMPLEMENTATION ACTIONS FOR IMPROVING STUDENT-TEACHER RATIO

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2021	Review current staffing levels against PRDE staffing guidelines (Organización Escolar) across all schools and identify schools with incorrect mix of teaching staff	December 2020	Delayed – November 2021
	Define an implementation plan to align teacher count to current Organización Escolar guidelines for identified schools – this change would allow PRDE to meet the Fiscal Plan savings targets for FY2022 to FY2025	May 2021	Delayed – August 2021
	Outline a plan to streamline the process for school staffing in a transparent data-based manner that will allow PRDE to continue to manage the student-teacher ratio in a systematic way	May 2021	Delayed – December 2021
To be completed in FY2022	Define an implementation plan to align teacher count to current Organización Escolar guidelines and meet Fiscal Plan targets for FY2022-FY2025	August 2021	Not Started
	Implement a streamlined process to systematically apply staffing guidelines and document allowable exceptions to teacher assignments to ensure that going forward PRDE is able to maintain an appropriate allocation of teaching staff in all schools	December 2021	Not Started

15.3.2 Capturing savings from past school consolidations

The Government of Puerto Rico recognized that declining student enrollment requires active management of school facilities to enable the system to invest in a smaller number of higher-

performing schools. Therefore, in 2018, the Government proposed to consolidate schools to improve overall efficiency within the system. After an analysis of several factors including capacity, geographic and cultural characteristics, distance to neighboring schools, transportation costs, and facility quality, the joint Government / Oversight Board proposal within the October 2018 Fiscal Plan included a measure for PRDE to close 307 schools by FY2020 which was projected to result in ~\$111 million of run-rate savings by FY2023. By FY2020, PRDE had consolidated 255 schools, and the Oversight Board determined that no further closures were required at the time. However, PRDE committed to capture the full savings estimate (representing ~\$15-20 million per year²⁷⁰) elsewhere. Unfortunately, to date, school consolidations have not led to proportional personnel and non-personnel costs savings because the consolidations have not been accompanied by concurrent reductions in administrative staff or operational savings.

On the personnel side, this initiative requires the number of school administrators (school directors, office staff, etc.), food service staff, facility maintenance staff, and other school-specific staff to be scaled down to account for a smaller number of schools than achieved to date through consolidation efforts.

EXHIBIT 91: RUN RATE SAVINGS TARGET AND ACTUAL RUN RATE SAVINGS ACHIEVED, BY PERSONNEL CATEGORY (FY2021)

School personnel category	Run rate savings target, \$M	Actual run rate savings, \$M
Administration	29.6	11.0
Maintenance	18.8	7.7
Food Services	28.8	5.2
Total	77.2	23.9

SOURCE: PRDE Personnel roster December 2020

The 2021 Fiscal Plan requires the Department to maintain its 2018 average of 3.39 food services full-time employees (FTEs) and 2.24 school administrative FTEs per school. As of December 2020, PRDE employed 3,588 food services staff and 2,230 school administrators (implying a ratio of 4.45 and 2.77²⁷¹ respectively). This is an excess of 1,274 employees from 2020 Fiscal Plan expectations for FY2021 and equivalent to ~\$42.2 million in unrealized run-rate savings in that same fiscal year. As such, in FY2022 PRDE must prioritize rightsizing headcount to meet 2021 Fiscal Plan personnel saving targets.

Recently, PRDE provided internal guidelines for staffing food services and school administrative staff. The full implications of the information received in late FY2021 is still being reviewed and analyzed. However, based on the evidence received, PRDE actual ratios are distant even from their internal guidelines. PRDE must achieve the personnel savings committed to when the 307 school closures were proposed, as required in the 2021 Fiscal Plan.

Furthermore, PRDE must also achieve a 2.27 maintenance FTEs per school ratio. Recently, PRDE provided supporting information for staffing maintenance personnel, which specified PRDE staffs 1 FTE per 13 building units (a unit is defined as 1 classroom, 2 bathrooms, 1 office, or 1 library). However, when asked to provide the building data necessary to assess if current staffing levels align with these guidelines, no further information was made available to the Oversight Board. As of December 2020, PRDE had not met 2020 Fiscal Plan targets for maintenance staff, employing 2,200 employees for a ratio of 2.61. As such, in FY2022 PRDE also must prioritize rightsizing maintenance headcount to meet 2021 Fiscal Plan personnel saving targets.

²⁷⁰ Non-personnel saving per school (~\$47,000) was the result of analyzing Government-provided school closure data from previous years and represents the average non-personnel savings across a group of 151 closed schools

²⁷¹ Based on Agency Efficiency Measure model target of 806 operating schools

EXHIBIT 92: SUMMARY OF CBA / STAFFING GUIDELINES FOR FOOD SERVICES, MAINTENANCE AND SCHOOL ADMINISTRATION

	Formal Policy	Source / Policy
School Administration	<ul style="list-style-type: none"> No formal CBA Escuela Básica indicates 1 administrative FTE / school 	<ul style="list-style-type: none"> Escuela Básica HR Director guidance
Maintenance	<ul style="list-style-type: none"> 1 maintenance FTE per 13 units¹ 	<ul style="list-style-type: none"> Maintenance staff CBA (2012)
Food Services	<ul style="list-style-type: none"> 1 food services FTE per every 9-14 meals served per hour² 1 food services supervisor FTE per school 	<ul style="list-style-type: none"> Food services staff CBA (2012)

¹ Unit defined as: 1 classroom, 2 bathrooms, 1 office, or 1 library
² Meals served per hour calculated based on overall meal volume

On the operational side, school consolidations required PRDE to capture non-personnel savings, including reductions in spend on facilities/utilities, professional services, and purchased services, among others.

To date, PRDE has struggled to capture these additional operational savings. The Department has not provided a clear view into how the consolidation of 255 schools has resulted in lower utilities and other operating costs. However, PRDE has been working to avoid unnecessary payments in closed schools by diligently reconciling utility bills from PREPA and PRASA and increasing inter-agency communication. PRDE claims it has been able to recoup a significant amount from identification of excess electricity charges and water charges (although no supporting documentation has been shared), and the Department committed to continue monitoring these bills to avoid overpayment in the future in both closed and active schools.

Despite moderate progress made, many closed school buildings have been left empty or repurposed for administrative uses, inhibiting PRDE's ability to capture full savings from each of the school closures. PRDE has identified 56 school buildings to repurpose for administrative uses, including 41 to be used as inactive archives, regional offices, and for other administrative uses, and 15 to be used by a non-profit alternative education program (Proyecto Centros de Apoyo Sustentable al Alumno (CASA)); however, PRDE has not provided a capacity assessment to justify this decision. As part of its Facilities Master Plan, PRDE must work towards minimizing the spend on retained buildings and therefore achieving the required 2021 Fiscal Plan savings.

Further, notwithstanding that PRDE is not the owner of the schools, the Government (including PRDE, DTOP, PBA, AAFAF and any other relevant Government agency) must make every effort to finalize a plan for sale or lease to ensure the unused buildings are most efficiently utilized in communities and do not create new community challenges due to their abandonment. In FY2022, PRDE is expected to capture all the outlined 2021 Fiscal Plan savings for both personnel and operational savings.

EXHIBIT 93: REQUIRED IMPLEMENTATION ACTION FOR CAPTURING SAVINGS FROM PAST SCHOOL CONSOLIDATIONS

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2022	<ul style="list-style-type: none"> Define an implementation plan to rightsize food services personnel, maintenance, and school administrators according to internal staffing guidelines (e.g., CBA) and Fiscal Plan targets 	<ul style="list-style-type: none"> August 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Provide a savings analysis of the 255 schools closed, including rent, utilities, maintenance, security, property materials, telecoms, etc. 	<ul style="list-style-type: none"> September 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> As part of the Facilities Master Plan, PRDE will work with other Government agencies (e.g., DTOP, AEP, AAFAF) to plan for the sale/lease/other of unused buildings, assess the cost to maintain ~56 closed schools for alternate use and identify a funding source to cover these operational expenses 	<ul style="list-style-type: none"> November 2021 	<ul style="list-style-type: none"> Not Started

15.3.3 Rightsizing regional and central offices

The 2021 Fiscal Plan supports PRDE's own proposed shift from a single central administrative office model to a central/regional administration model. By pursuing a regional model, PRDE had aimed to enable faster, more locally relevant educational services; drive system-wide initiatives and shared services from a central office; and reduce administrative headcount. In this new central/regional model, administration of individual schools would be decentralized and made leaner while also putting decision-making closer to students and families. Developing and relying on regional leadership would also allow PRDE's central administrative structure to rightsize to staffing levels comparable to state educational agencies on the mainland. In keeping with the push toward a central/regional model, Fiscal Plans have required that by FY2020, PRDE achieve approximately a 25% reduction in administrative headcount between regional and central office roles; this target has been maintained in the 2020 and 2021 Fiscal Plans.

As of December 2020, PRDE had ~2.8k staff that held central/regional office roles: 722 in the central office, 607 in the seven regional offices, and the largest portion, ~1.5k, in field-based roles that are directly serving schools or groups of schools but tagged to regions. **A comparison analysis of PRDE's administrative headcount for FY2020 and FY2021, which includes those in central and regional offices not directly serving schools, shows that there has been no progress in rightsizing headcount to meet savings targets.**

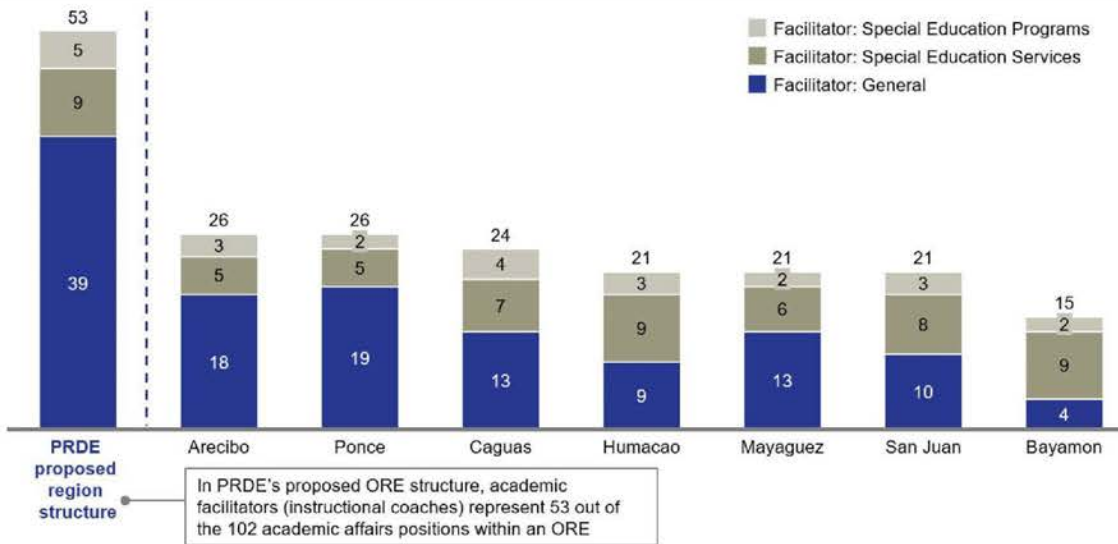
In order to meet 2021 Fiscal Plan targets going forward and maximize the impact of its staff, the Department must first clearly define the roles and responsibilities of functions at the regional and central level to identify capacity gaps and better empower the regions. There is currently redundancy in responsibilities to be resolved at the central and regional levels, which contributes to process inefficiencies and lack of ownership over decisions. Furthermore, these issues lead to unclear definitions of success, prevent high performers from being elevated to leadership positions, and limit opportunities for professional development programs differentiated based on the level and function of the staff member. PRDE must enable its staff to succeed through clearly defined roles, formal accountability structures, and professional supports to build relevant skills as outlined in *Chapter 8*. Addressing these concerns will result in a more efficient system and staff who understand how to maximize their contributions to improve the Department.

Additionally, to achieve the vision of a decentralized model, PRDE must realign existing resources to fill critical vacancies at both the central and regional level. In doing so, PRDE should re-evaluate dispersion of responsibilities across the central leadership team to create an organizational structure that best supports the needs of the Department. Furthermore, PRDE must ensure enough support at the regional levels, where there was a 20% reduction in field-based staff from FY2020-FY2021. In particular, there has been a stark understaffing of community engagement

regional coordinators, with four of seven posts remaining vacant, and of academic support staff, including facilitators who support teacher development.

EXHIBIT 94: ACADEMIC FACILITATOR COUNT VERSUS TARGET

Proposed regional headcount vs. current state for academic facilitators, Dec 2020



SOURCE: PRDE Personnel roster Dec 2020

Moving forward, PRDE must pursue its vision for a better-defined central/regional model by clearly defining the role of the central and regional offices and eliminating duplicative responsibilities between the offices. Subsequently, PRDE must fill key vacancies in all levels of the system, with a particular focus on increasing academic support staff as well as rightsizing administrative headcount in the central and regional offices to ensure resources are more adequately focused on driving student achievement in schools.

EXHIBIT 95: REQUIRED IMPLEMENTATION ACTIONS FOR RIGHTSIZING REGIONAL AND CENTRAL OFFICES

Required implementation actions		Deadline	Status / New deadline
To be completed FY2022	<ul style="list-style-type: none"> Delineate roles and responsibilities for each function of the Central vs. Regional offices in a manner that allows PRDE to identify duplicative responsibilities and re-prioritize school support in the regions 	August 2020	Delayed – December 2021
	<ul style="list-style-type: none"> Define an implementation plan to invest in Region's school support function by re-allocating staff to increase academic facilitator positions in the regions and reduce administrative headcount in the central and regional administrative offices, aligned to Fiscal Plan targets for FY2022 to FY2025 	December 2020	Delayed – August 2021
	<ul style="list-style-type: none"> Identify critical vacancies at central, regional, and school level and develop a plan to fill with high potential candidates by reducing and reallocating existing resources, particularly administrative positions 	August 2021	Not Started
	<ul style="list-style-type: none"> Define implementation plan to achieve 25% reduction in administrative headcount between regional and central offices 	December 2021	Not Started

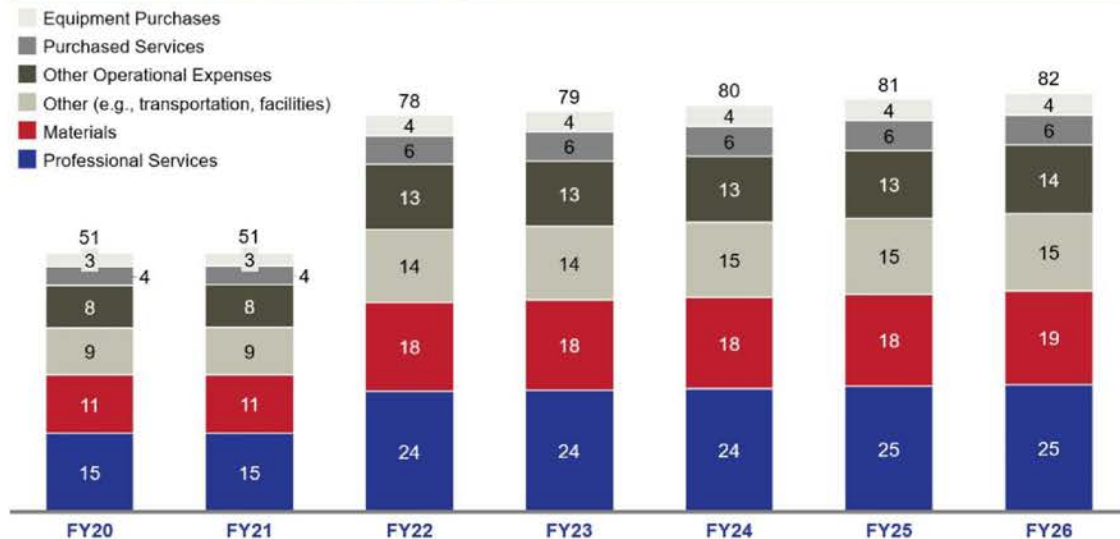
15.3.4 Reducing procurement spend

PRDE procurement spend must be reduced by 10-15% by FY2023 through centralized procurement policies, including strategic purchasing, and demand controls. As detailed in *Exhibit 96*, PRDE must meet 2021 Fiscal Plan savings targets across all procurement categories, by creating greater spending transparency, consolidating vendor contracts, and prioritizing savings

in areas that represent variable costs (which generally decline as enrollment does) and those that have less impact on students and schools.

EXHIBIT 96: SUMMARY OF EXPECTED PROCUREMENT SAVINGS PER 2021 FISCAL PLAN

Procurement savings target by spend concept¹, \$M



¹ Excludes PayGo

SOURCE: FY19, FY20, FY21 Sabana files

Even if PRDE operated within 2020 Fiscal Plan budget targets for FY2021, PRDE has not made notable progress in implementing structural initiatives to drive sustainable procurement savings, and instead has waited for the procurement centralization within the **General Services Administration (GSA)** to realize procurement savings. Starting on FY2022, GSA will start taking an increased role in procurement on behalf of PRDE, although PRDE is still accountable for achieving these procurement savings in the interim.

PRDE's ability to make informed strategic management decisions on how to effectively allocate resources to procurement expenses is constrained by a lack of transparency in spending. The 2020 Fiscal Plan highlighted the need to increase transparency of spending data (e.g., providing more visibility into the ~40-50% of non-personnel expenses tagged to categories with unclear descriptions or listed as "unclassified"), in order to allow PRDE to identify areas for efficiencies. During FY2021, PRDE took some initial steps to implement new subcategories in the financial system (Financial Information System of the Department of Education or SIFDE by its Spanish acronym) to better classify spend in the Professional and Purchased Services concept codes, and it should now aim to assess this spend and identify areas for vendor consolidation and/or other procurement efficiencies. Also, as part of the long-term financial plan mentioned in *Section 15.1.1*, PRDE must assess and rationalize spending across funding sources to ensure it is efficiently leveraging all funding sources available.

Lastly, as mentioned in *Section 15.1*, PRDE must comply with Act 73-2019, as amended, which requires the agency to prepare an Annual Procurement Plan based on the agency's annual estimate of probable needs and purchases. Although Act 73-2019 does not require agencies to prepare a plan for annual professional services, PRDE must prepare a similar plan that details all professional services to be contracted during the fiscal year to obtain similar benefits, including an understanding of the purchases to be made during the year, identifying potential savings, ensuring compliance with budget targets, and flagging opportunities to improve current processes and procedures.

Facilities costs

Currently, there is still very little transparency into what PRDE spends on facilities. PRDE continues to capture facilities related spend in several cost concepts, making it difficult to disaggregate between type of spend, including custodial, maintenance, capital expenditures, etc. The Oficina para el Mejoramiento de Escuelas Públicas (OMEP), which represented ~60% of facilities spending in FY2019, implemented minor changes in its system during this past fiscal year to increase alignment with SIFDE and better capture facilities spend. However, OMEP has yet to implement an expense reconciliation process with SIFDE, which limits the visibility into total facilities costs. Driving to a greater level of transparency in how OMEP spends its budget across the various facilities cost concepts will help PRDE make sure dollars are being allocated with the appropriate level of prioritization. As such, in FY2022 PRDE must implement updates to capture all facilities spend at PRDE (e.g., spend from OMEP) in a more streamlined manner and to be able to differentiate spend between maintenance, capital expenditures and custodians.

The 2020 Fiscal Plan discussed how PRDE must commission the development of a Facilities Master Plan to assess its portfolio of buildings alongside their purpose and plan for the future. During FY2021, PRDE contracted a vendor to complete a Facilities Master Plan as part of the requirements of the FEMA Accelerated Award Strategy (FAASt) funding obligation. An initial master plan is expected to be completed mid-to-late 2021 with the full plan finalized in early 2022. This plan would account for changing needs and demographics of schools on the Island by prioritizing investments in school buildings that have a long-term place in the school footprint and are equipped with 21st century features and resources as well as disaster-resilient infrastructure. The plan must also identify alternative uses of its facilities that may be phased out over time. As such, in FY2022 PRDE must comply with the FEMA requirement to create a facilities master plan that assesses the need of PRDE facilities portfolio and share all versions of such plan with the Oversight Board.

Transportation costs

Federal Individuals with Disabilities Education Act (IDEA) dollars and School-wide funds have been used by PRDE in the past to fund student transportation; however, USDE-imposed restrictions on PRDE currently prohibit the use of federal funds for transportation. This is due to the fact that PRDE has had a series of reports on non-compliance with the provisions of the Code of Federal Regulations and the IDEA Law related to improper payments, lack of internal controls, non-compliance with its own policies, and lack of adequate monitoring in relation to the issuance of payments for transportation services to students of the Special Education Program. Thus, at the moment, PRDE must completely fund both General and Special Education student transportation through the General Fund until compliance with USDE-imposed special conditions and other USDE requirements are met. Ultimately, this puts increased pressure on State dollars for student transportation instead of being able to leverage a portion of federal dollars.

During FY2021, PRDE made progress in implementing the transportation system updates that would address USDE findings, but it has yet to present these updates to USDE to assess completion of the actions. PRDE must prioritize this work in FY2022 to achieve greater flexibility in funding sources for student transportation.

EXHIBIT 97: REQUIRED IMPLEMENTATION ACTIONS FOR REDUCING PROCUREMENT SPEND

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2022	<ul style="list-style-type: none"> Define a plan to increase expense categorization and reporting transparency, which could include adding descriptors in PRDE's internal financial systems (e.g., SIFDE) 	<ul style="list-style-type: none"> December 2020 	<ul style="list-style-type: none"> Completed
	<ul style="list-style-type: none"> Evaluate current transportation spend and services in order to ensure that all students that are eligible (per IEP or regular eligibility guidelines) receive transportation services 	<ul style="list-style-type: none"> December 2020 	<ul style="list-style-type: none"> Delayed – July 2021
	<ul style="list-style-type: none"> Evaluate facilities spend and create an implementation plan to capture all facilities spend at PRDE (e.g., spend from OMEP) in a more streamlined manner and to be able to differentiate spend between maintenance, capital expenditures and custodians 	<ul style="list-style-type: none"> December 2020 	<ul style="list-style-type: none"> Delayed – December 2021
	<ul style="list-style-type: none"> Create a facilities master plan that assesses the need of PRDE facilities portfolio in order to ensure that spend is prioritized according to need and PRDE's long-term facilities strategy 	<ul style="list-style-type: none"> May 2021 	<ul style="list-style-type: none"> Delayed – July 2021
	<ul style="list-style-type: none"> Implement updates to the transportation system and resolve all pending items identified to comply with USDE requirements and thus be able to leverage Federal Funds to cover part of student transportation costs 	<ul style="list-style-type: none"> July 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Create a facilities master plan that assesses the need of PRDE facilities portfolio in order to ensure that spend is prioritized according to need and PRDE's long-term facilities strategy (PRDE must share all versions of such plan with the Oversight Board) 	<ul style="list-style-type: none"> July 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Evaluate improved spending transparency given new subclassifications within SIFDE and identify savings achieved as well as potential opportunities to meet Fiscal Plan savings target 	<ul style="list-style-type: none"> October 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Prepare and submit the Annual Procurement Plan to GSA, as required by Law 73-2019, and prepare a similar plan for professional services to be contracted during the next fiscal year 	<ul style="list-style-type: none"> March 2022 	<ul style="list-style-type: none"> Not Started

15.3.5 Optimizing Special Education professional services costs

PRDE serves Special Education students through two programs. The primary program is the Special Education Program, known as Secretaría Asociada de Educación Especial (SAEE), which provides educational and therapeutic services to students, with the second program being *Remedio Provisional*, which only provides non-education support services to students. *Remedio Provisional* was created as a result of the Rosa Lydia Vélez Case to offer therapeutic services to Special Education students whose only impediment to receiving services is that the Department of Education does not have the resources to offer them. Typically, if PRDE does not provide necessary services within 30 days from the request of services from SAEE and drafting of the Individualized Education Program (IEP), the family of the special education student has the ability to receive services through this alternate channel. While it is good practice for districts to have a formal mechanism for complaints and ensuring students receive adequate services, PRDE's way of addressing this situation is not typical. PRDE uses *Remedio Provisional* as a more permanent solution for students to receive services. Services that were not budgeted for appropriately at the beginning of the year within SAEE are provided through *Remedio Provisional*; only to then transfer students to receive services via SAEE the following year. Given this practice, PRDE ends up spending much more on student support costs than is necessary to deliver the same quality of service.

PRDE's ability to provide Special Education services through the pandemic has been impacted with social distancing requirements altering service delivery and creating significant delays in the IEP revision process. Despite these challenges, PRDE has been able to make progress towards improving quality and transparency of Special Education data, primarily through updates to the Mi Portal Especial (MiPE) system (e.g., adding Human Resources modules to create better visibility into allocation of Special Education assistants and integrations between Sistema de Información Estudiantil (SIE) and MiPE systems to better monitor Special Education students' academic progress).

To date, PRDE has been unable to realize reductions in professional services costs associated with the Remedio Provisional program, which are 4-5 times more expensive than services provided through the regular Special Education program. As of March 2021, PRDE was working on completing the required market study on Remedio Provisional pricing and is expected to evaluate the results and incorporate revised rates in FY2022. As such, in FY2022 PRDE must implement these revised rates, as well as analyze and capture savings achieved.

Furthermore, PRDE has made slow progress on the implementation of a process to transition students from *Remedio Provisional* to the regular Special Education program. During FY2021, a committee was formed to identify students that could be transitioned into the Special Education program; however, the committee was ineffective at creating additional capacity needed to serve many of these students within the Special Education program, in part because of the challenges of the on-going pandemic.

For FY2022, PRDE proposed that it could transition students receiving psychological or individual speech therapy through contracted vendors to the Special Education program as there are existing internal resources with capacity to provide these services (e.g., school psychologists). As such, in FY2022 PRDE must define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition students from *Remedio Provisional*.

EXHIBIT 98: REQUIRED IMPLEMENTATION ACTIONS FOR SPECIAL EDUCATION

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2021	<ul style="list-style-type: none"> Create a small Central Office team (max of 8) to implement the digitization of Special Education IEP records with supporting documentation, assigned resources and related service requirements, and provide a 12-month implementation plan to the Oversight Board.¹ 	<ul style="list-style-type: none"> July 2020 	<ul style="list-style-type: none"> Completed
	<ul style="list-style-type: none"> Revisit Remedio Provisional's services pricing to ensure these are aligned to market rates as per Law 85-2018 	<ul style="list-style-type: none"> May 2021 	<ul style="list-style-type: none"> On track
To be completed in FY2022	<ul style="list-style-type: none"> Establish transition process for students from Remedio Provisional back to PRDE Special Education program, which will allow PRDE to serve these students within the system at more reasonable rates 	<ul style="list-style-type: none"> December 2020 	<ul style="list-style-type: none"> Delayed – October 2021
	<ul style="list-style-type: none"> Implement recommendations of PRDE's transition committee to enable students to receive services through PRDE's Special Education Program instead of Remedio Provisional 	<ul style="list-style-type: none"> October 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Implement revised Remedio Provisional rates and analyze savings achieved by submitting a report to the Oversight Board 	<ul style="list-style-type: none"> December 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional 	<ul style="list-style-type: none"> October 2021 	<ul style="list-style-type: none"> Not Started

¹ At a minimum, the plan must include (1) amount of IEPs to be digitalized, (2) amount of time employees will take to carry out the project, (3) accountability measures/checks to validate accuracy of data inputted, (4) monthly milestones, (5) team members with name, employee ID, contact information, and job title, and (6) project supervisor with name, employee ID, contact information, and job title.

15.3.6 Improving financial processes

As mentioned in *Chapter 9*, to support the effort of developing a long-term financial plan, PRDE must identify and hire a well-qualified chief financial officer (CFO) to lead the process of establishing a long-term financial plan that aligns to the strategic plan of the Department, incorporates all funding sources, and prepares the Department to address the short and long-term education reforms previously outlined in *Chapter 9* and *Section 15.3*. While aligning financial resources to student needs should always be a core ambition of an education system, the drastic challenges that have arisen over the last year, and the complexity of the Department's financial situation, further underscore the importance of this long-term financial planning exercise.

A key component of good financial management at PRDE is understanding, accessing, and fully leveraging all available funding resources. Historically, the Department has not used all its federal funds prior to the end of the corresponding grant periods, which has been exacerbated by the delay in signing the Third-Party Fiduciary Agent (TPFA) contract, as mentioned in *Section 15.3*. Furthermore, the Department has at times been unable to use federal funds for typically allowable purposes due to operational mismanagement, as in the case of funding for student transportation. The current educational situation in Puerto Rico is too dire not to figure out how to unlock all available funds, too urgent not to rethink how these funds are aligned to the Department's strategic priorities, and too complex to address in a single budget cycle.

EXHIBIT 99: REQUIRED IMPLEMENTATION ACTIONS FOR THE DEVELOPMENT OF A LONG-TERM FINANCIAL PLAN

To be completed in FY2022	Required implementation actions	Deadline	Status / New deadline
	<ul style="list-style-type: none"> Hire a well-qualified Chief Financial Officer (CFO) who will work with PRDE leadership to develop a long-term financial plan, in addition to other budgeting and planning responsibilities 	<ul style="list-style-type: none"> August 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Identify all available funding (recurring and non-recurring), including any spending restrictions, expiration dates, or inaccessible funds 	<ul style="list-style-type: none"> September 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Develop and execute a plan to release inaccessible funds, including the ability to leverage Federal Funds to student transportation 	<ul style="list-style-type: none"> September 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Prepare and share with the Oversight Board a long-term financial plan that models revenue and cost projections by funding source, aligns to the Department's strategies, deploys stimulus funds, and achieves the savings measures specified in this chapter 	<ul style="list-style-type: none"> December 2021 	<ul style="list-style-type: none"> Not Started
	<ul style="list-style-type: none"> Communicate strategic priorities to regions and school directors to support alignment of financial resources in school budgets and institutionalize recurrent meetings to measure progress 	<ul style="list-style-type: none"> March 2022 	<ul style="list-style-type: none"> Not Started

Lastly, in order to implement the 2021 Fiscal Plan and meet overall objectives related to improving support for students, staff, and parents, PRDE must address a series of challenges throughout the Department, particularly related to fiscal procedures and operational practices. In some cases, fiscal procedures and internal controls are well documented, but the Department does not adhere to them. In other instances, the Department faces issues when it does not have proper policies or documentation to map processes, guarantee internal controls, establish segregation of duties, and designate responsibilities.

For example, based on analysis conducted by the Oversight Board, there is a lack of adherence to the Department of Treasury (Hacienda) policies, particularly as it relates to the submission of weekly and monthly interfaces that contain accounting information and spending transaction details. Based on Hacienda's Carta Circular 1300-04-09, Hacienda requires all Government agencies to submit weekly interfaces by the following Friday, as well as a monthly closing interface due 5 business days after the end of the month. However, PRDE does not submit weekly interfaces, and, while PRDE does submit monthly closings interface, the agency does not meet the established timeline. PRDE claims this is due to the significant number of transaction amendments that must be performed to clean the data to avoid errors in transactions (e.g., incorrect account numbers), particularly as it relates to payroll transactions. In addition, Hacienda's Carta Circular 1300-04-09 requires all Government agencies to include encumbrances and expenses in the interfaces, however, PRDE only includes expenses and fails to share encumbrances until the end of the fiscal year. This non-compliance with the policies and procedures established by Hacienda complicates PRDE's and the Government's ability to actively monitor and manage available resources within the agency, while also limiting spending

transparency. As such, in FY2022 PRDE must define and implement a plan to address financial process concerns related to weekly/monthly soft-closings and year-end closing.

Other examples that highlight PRDE's inability to make informed decisions on a timely basis, meet Government-wide policies and increase transparency include:

- **Heavy reliance on consultants for everyday functions.** PRDE heavily relies on consultants throughout the Department (e.g., data analysis and management, federal funds administration, human resources systems) which then results in a lack of trained personnel within the agency. Although the Oversight Board recognizes PRDE, and any entity for that matter, may require external help in implementing effective technology systems or implementing leading instructional practices, PRDE must use consultants as bridge capacity to build internal capabilities and not as permanent resources. PRDE must ensure its internal resources are trained and capable of performing the work consultants do after a reasonable amount of time. In addition, starting July 2021, PRDE must include a reference to transfer knowledge and train agency employees on all professional service contracts to lower dependency on third-party vendors and consultants over time.
- **Bureaucratic procurement processes.** The time for procuring services can take over 6 months, while at the same time PRDE has ineffective manual processes and paper trails, poor segregation of duties between responsible personnel, and lack of internal controls (e.g., lack of oversight, no adequate training for employees, no proper documentation of required approvals). These issues are also highlighted in the Federal Government's Audit Reports (2019 Puerto Rico Department of Education's Internal Controls over the Immediate Aid to Restart Schools Operations Program; 2013 Review of Final Expenditures Under ARRA). As such, in FY2022 PRDE must define and implement a plan to address all findings identified in state and federal audits, digitize the procuring process, establish clear segregation of duties, and enforce comprehensive internal controls.
- **Lag from the time an encumbrance is recorded, to the time PRDE receives the invoice from the vendor, to the time the invoice is paid.** PRDE's Finance Office monitors the high dollar amount of encumbrances and the low dollar amount of disbursements, however, there is no internal policy or requirement to ensure PRDE programs and offices follow up with the vendors to receive and pay the invoices on time. At the end of the year, encumbrances are not paid on time, fiscal year State dollars are left unused and these unpaid invoices accumulate as debt. As such, in FY2022 PRDE must define and implement an internal process to address lags between the time an encumbrance is recorded, to the time PRDE receives the invoice from the vendor, to the time the invoice is paid, as to avoid incurring unnecessary debt.
- **Inability to liquidate funds on allowable costs before the established deadline.** For example, in FY2019 and FY2020, there was significant General Fund underspend (\$49 million and \$60 million, respectively). However, the Oversight Board recognizes there are areas and projects within PRDE that have not been properly funded due to mismanagement of funds which highlight the disconnect between resources available and financial planning. Similarly, PRDE has to constantly request extensions and waivers from the Federal Government in order to liquidate federal grants. As such, in FY2022 PRDE must institute a weekly/monthly budget-to-actual analysis to monitor progress on defined workplans among the different PRDE programs.
- **Discrepancies in account codes** used by PRDE, which are not aligned to Hacienda's approved account codes. These discrepancies must be constantly reconciled by both Agencies, further complicating and extending the closing and reconciliation processes. As such, in FY2022 PRDE must identify discrepancies in accounts codes and implement the codes established by Hacienda.

Improvement of these financial processes will not only enable the implementation of key 2021 Fiscal Plan reforms and initiatives but will also allow PRDE to better manage costs and use dollars more effectively for students. The Department must take clear and tactical actions to improve their financial processes as these have a direct impact to the service delivered to students and the financial transparency, controls, and efficiencies that are required to manage their expenditures. PRDE must actively and constantly review and improve all financial and operational process, not just the ones listed above, which are inefficient and prevent the agency from meeting its goals.

EXHIBIT 100: REQUIRED IMPLEMENTATION ACTIONS FOR IMPROVING FINANCIAL PROCESSES

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2022	▪ Include a reference to transfer knowledge and train agency employees on all professional service contracts to lower dependency on third-party vendors and consultants over time	▪ July 2021	▪ Not Started
	▪ Define and implement plan to address financial process concerns related to weekly/monthly soft-closings and year-end closing	▪ September 2021	▪ Not Started
	▪ Institute a weekly/monthly budget-to-actual analysis to monitor progress on defined plan among programs	▪ September 2021	▪ Not Started
	▪ Define an implementation plan to address all findings identified in state and federal audits, digitize the procuring process, establish clear segregation of duties, and enforce comprehensive internal controls.	▪ September 2021	▪ Not Started
	▪ Define an implementation plan to transfer to modified accrual accounting, as established by PROMESA, to allow for timely expense recording in books and in compliance with 203 reporting	▪ December 2021	▪ Not Started
	▪ Finalize the implementation of the plan developed to address all findings identified in state and federal audits, digitize the procuring process, establish clear segregation of duties, and enforce comprehensive internal controls.	▪ January 2022	▪ Not Started
	▪ Analyze consultant contracts in order to evaluate the commencement date of the services rendered and develop a plan to train PRDE employees capable of carrying out these functions, as a way to decrease dependency on external contractors	▪ January 2022	▪ Not Started
	▪ Finalize the implementation of modified accrual accounting, as established by PROMESA, to allow for timely expense recording in books and in compliance with 203 reporting	▪ May 2022	▪ Not Started
	▪ Identify discrepancies in PRDE and Hacienda accounts codes, and implement the account numbers/codes established by Hacienda to avoid future discrepancies	▪ May 2022	▪ Not Started

15.4 Department of Health (DOH)

As of 2021, the Government has several health-related agencies that are highly fragmented: five public corporations, and two agencies, with nine public hospitals in total. One of the agencies is the Department of Health with seven health regions and sixteen programs—each of them, with their own back office support functions. Such fragmentation has driven up cost and inefficiency, as each agency is required to provide its own human capital management, procurement, and financial support. Patient experience and care delivery have also suffered as residents' cases are frequently transferred among frontline staff.

Additionally, access to care on the Island is significantly lower when compared to national averages. This is especially the case outside of the San Juan metro area, given the shortage of clinics and trauma centers. As of December 31, 2020, there were 110 Health Professional Shortage Areas (HPSA)²⁷² and 72 Medically Underserved Areas²⁷³ in Puerto Rico. Based on the number of additional physicians required to remove HPSA status, as of September 30, 2020, Puerto Rico

²⁷² "Designated Health Professional Shortage Areas Statistics, First Quarter of Fiscal Year 2021." Health Resources and Services Administration

²⁷³ HRSA Tools, MUA Find. Accessed March 25, 2021

meets 1.91% of demand for primary care (versus the 44.52% national average)²⁷⁴, 16.56% of demand for dental care (versus the 29.28% national average)²⁷⁵, and 14.60% of demand for mental health services (versus the 26.9% national average)²⁷⁶. In Puerto Rico, this fragmented and resource-constrained healthcare system has resulted in several issues, including health outcomes that are significantly poorer than national averages.

The 2021 Fiscal Plan requires the Department of Health to consolidate the following six healthcare agencies: Department of Health (DOH); Medical Services Administration (ASEM); Health Insurance Administration (ASES); Mental Health and Anti-Addiction Services Administration (ASSMCA); Cardiovascular Center of Puerto Rico and the Caribbean (CCPRC); and Center for Research, Education, and Medical Services for Diabetes (CDPR) (*Exhibit 101*).²⁷⁷ Consolidating these six agencies will provide the opportunity for rightsizing support functions, as well as centralizing procurement to provide savings on costly medical materials, equipment and services. This new consolidated agency should enable efficiencies while focusing on providing a high-quality public healthcare system.

EXHIBIT 101: AGENCIES INCLUDED IN FUTURE STATE DEPARTMENT OF HEALTH GROUPING

- | | |
|--|--|
| 1 Department of Health | 4 Puerto Rico and the Caribbean Cardiovascular Center Corporation |
| 2 Health Insurance Administration (ASES) | 5 Center for Research, Education and Medical Services for Diabetes |
| 3 Medical Services Administration (ASEM) | 6 Mental Health and Addiction Services Administration |

To date, the Government has achieved no progress towards this requirement. Legislation presented in December 2019 that was needed to execute the first phase of consolidation (consolidation of ASES and DOH) was not recommended by the Senate's Health Commission, and legislation to consolidate the remaining health agencies has not been drafted.

While ASEM has made initial progress on initiatives to improve supply chain management (e.g., procurement centralization), these initiatives remain in the early stages and must be expanded to other health agencies in order to achieve target savings. The revenue cycle management optimization initiative has also been delayed for over a year, though a third-party provider has been selected and the project was launched in March 2021. Moreover, while an Electronic Health Records (EHR) system has been deployed in the ASEM emergency room, the ASEM Trauma Hospital, the DOH University District Hospital for Adults (UDH) and the University Pediatric Hospital (HOPU). EHR capabilities and digital hospital management tools across the health agencies remain limited since systems are fragmented and information is not integrated or shared between systems, creating a barrier to realizing operational efficiencies and lacking a standardized reporting system.

This lack of progress in improving the public healthcare system is particularly problematic given the major crises Puerto Rico has faced in recent years – and may continue to face. Though Puerto Rico has weathered the COVID-19 pandemic well thus far, with one of the lowest per capita death rates of any U.S. state or territory,²⁷⁸ there have been spikes in recent weeks as tourists and others

²⁷⁴ Primary Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed April 8, 2021

²⁷⁵ Dental Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed April 10, 2021

²⁷⁶ Mental Health Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed April 10, 2021

²⁷⁷ University of Puerto Rico Comprehensive Cancer Center will likely remain separate but is maintained in the Health Grouping given no formal legislation passed as of April 2022.

²⁷⁸ Coronavirus in the U.S.: Latest Map and Case Count. NY Times. Accessed March 25, 2021

return to the Island for holidays and vacations.²⁷⁹ Moreover, provider infrastructure and patient access has not yet fully recovered since Hurricane María, with just 10,580 health professionals serving the entire population of 3.2 million people in 2019.²⁸⁰ While DOH has moved to counter some of these issues by coordinating patient care with private hospitals, the lingering after effects of the hurricane and COVID-19 may still be a challenge to the health system in the future.

To counter the pressures that the COVID-19 pandemic has placed on the public healthcare system, the Oversight Board and the Government made investments of over \$443 million during FY2021, from which \$393 million are dedicated to targeted infrastructure expansion and improvements. These funds are being invested to enable the Government's near-term response to COVID-19 and to position the healthcare system to meet the needs of Puerto Rico. Specifically, (1) to address critical infrastructure gaps in Hospital and Health Facilities, (2) to increase capacity by expanding Public Hospitals, (3) invest in specific CDTs and Medical Facilities and (4) to improve technology with Medicaid IT and Public Hospital IT system. The Oversight Board is monitoring the use of these funds to ensure they are spent effectively and in areas of true need. As of March 2021, 80% of the \$393 million targeted infrastructure investments have initiated the procurement process but only 3% of the funds have been disbursed (See *Section 15.4.1* and *Exhibit 102* below for more detail).

This additional funding has been complemented by funds from federal legislation related to the COVID-19 response, which are allocated to public and private sector health care providers. Major estimated funding flows for Puerto Rico include more than \$2.4 billion in healthcare related programs, under the Preparedness and Response Supplemental Appropriations Act, the Families First Coronavirus Response Act, the CARES Act, the CRRSA Act, and the ARP Act. These include funds for emergency medical supplies, COVID-19 testing, contact tracing, and vaccination, as well as funding for programs like the Provider Relief Fund, the Public Health and Social Services Fund, and the Community Healthcare allocations.

Given the amount of investment in the health system in the wake of COVID-19—and the importance of a well-functioning health sector to help Puerto Rico exit the pandemic, it is a particularly urgent and important for DOH to deploy these funds effectively across various priorities. Without meaningful change—both through efficiency measures as well as targeted investments in the public health provider system—the health agencies will continue to falter in their mission to provide adequate health services for the people of Puerto Rico.

15.4.1 Investments to enhance healthcare services

Ensuring access to high quality, affordable healthcare for Puerto Rico continues to be a top priority of the Government and Oversight Board. In accordance with this priority and given the increased public health needs driven by the earthquakes and the COVID-19 pandemic, the 2020 Fiscal Plan recommended and included several strategic investments for the health system. Over the last year, the Oversight Board has worked with DOH to ensure the funds are being spent effectively. Unfortunately, many funds remain unspent. However, there are plans to spend much of what is left. Below is a summary of current progress in spending:

²⁷⁹“Chaotic Situation”: Puerto Ricans indignant at tourists breaking Covid mandates.” NBC News, March 20, 2021

²⁸⁰ “A 13-year-old’s death highlights Puerto Rico’s post-Maria health care crisis.” Vox, Feb 27, 2020. Accessed March 25, 2021

EXHIBIT 102: HEALTHCARE INVESTMENTS

Investment	Total Budget, \$M	Total Disbursed to date, \$M	Disbursed to date, %
▪ Hospital and health facility infrastructure	162 ¹	3	2%
▪ Capital Expansions at public hospitals	110	10	9%
▪ Public hospital IT	90	0	0%
▪ Medicaid IT (discussed in Chapter 15)	25	0	0%
▪ Telehealth infrastructure	5	\$	0%
Capex Sub-total	393	13	3%
▪ Medical Scholarship – UPR Team	30	0	0%
▪ Combatting the Opioid Crisis	20	0	0%
Other Non-Capex Investments Sub-total	50	0	0%
Grand Total Healthcare Investments	443	13	3%

¹ FY2020 Fiscal Plan included -\$25M additional to the \$162M in funding to fully operationalize the Cancer Center. These funds are not capex related.

Capital expansions at public hospitals for hospital and health facility infrastructure

Funds were assigned to address critical, near-term infrastructure needs at public hospitals (e.g., renovation of facilities in major disrepair, installation of air conditioning and purification systems, purchase of power generators) and to complete major capital expansions. These investments are meant to ensure that the health system has the capacity and equipment needed to meet the long-term healthcare needs of Puerto Rico.

DOH submitted their Action Plan in September 2020, which included their preliminary implementation plans per project, and since then minimal progress has been made due to the magnitude of hospital capital expenditure \$393 million (CAPEX) projects and resource capacity constraints within the Department of Health. At this point, 80% of the projects have initiated the procurement process, but only 3% have been disbursed to date. DOH is undergoing an assessment phase during which every site assigned CAPEX funds will be visited. The assessment phase has been completed for 21% of the projects. The rest of the assessment is expected to be completed before the end of Fiscal Year 2021. Meanwhile, funds assigned for Diagnostic and Treatment Centers (CDTs) have already been transferred to the corresponding municipalities, and projects at DOH hospitals are being closely monitored.

The remaining health agencies, including ASSMCA, ASEM, University of Puerto Rico Comprehensive Cancer Center, Cardiovascular Center Corporation, and the University of Puerto Rico Recinto de Ciencias Médicas have identified the projects to be implemented. However, capacity constraints and bureaucratic processes have meant little to no progress in disbursing funds. Only 1.2% of the assigned funds to these remaining health agencies have been disbursed.

Public hospital IT

Funds were budgeted for public hospitals to modernize technology, particularly via implementation of Electronic Health Records (EHR) and digital tools for hospital management. EHR (or digital patient records) can be accessed by all clinicians involved in a patient's treatment in real-time, enabling integrated communication within and across provider facilities, and allowing clinicians to make informed decisions based on comprehensive patient treatment histories. Investing in EHR capabilities is expected to reduce clinical/prescription errors and will reduce administrative burden in public hospitals. Digital hospital management tools allow

hospitals to collect and analyze data on patient flow, equipment use, etc. in real-time. Investing in these tools will enable operational improvement in public hospitals.

The Cancer Center has been assigned ~\$8 million out of this funding pool to complete the implementation of the EHR. Specifically, the objective is to continue the development of the necessary infrastructure and implementation of the EHR's project in order to comply with the requirements stipulated by the Centers for Medicare and Medicaid Services (CMS) and the different health insurance providers.

Telehealth infrastructure

Funds were budgeted at DOH to implement telehealth infrastructure to address the urgent need to improve access to care outside the San Juan municipal area. Advancements in telehealth infrastructure would allow patients to more seamlessly receive care from physicians regardless of patient location. This is particularly beneficial to people living in rural areas, and to all of Puerto Rico during periods of heightened physical distancing. The goal is for the funding to be invested in a telehealth platform and/or to develop access points in facilities (e.g., FQHCs) located in underserved areas.

During FY2021, DOH established a plan for implementing telehealth portals which included the following activities : 1) carrying out a diagnosis of telehealth needs in communities and facilities in at least three health regions; 2) developing a map of the resources and needs identified; 3) defining the technological infrastructure specifications of telehealth; 4) developing and implementing a plan to acquire and effectively install the telehealth portals; 5) developing a monitoring plan for the use of telehealth equipment; 6) designing and developing a Health Department telehealth portal.

Furthermore, DOH successfully identified sites outside of the Municipality of San Juan for potential installation of telehealth portals. The Department identified seven CDTs as well as sites of four community organizations. As reported by DOH, these entities represent key agents for reducing healthcare access barriers. DOH will work with the entities to formalize the collaboration agreement. However, DOH has not yet disbursed any of the funds.

Further actions to be achieved during FY2022 include procurement, purchase, and installation of the telehealth portals at the sites identified, as outlined in the required implementation actions found in *Exhibit 104*.

Combating the opioid crisis

Approximately \$20 million dollars was allocated to Fiscal Years 2020 and 2021 to combat the opioid crisis, which remains a pressing concern for Puerto Rico. (The full extent of the tragedy remains unknown, as data quality from Puerto Rico has been contested). Funding can be used to procure and distribute overdose reversal drugs, invest in community health events, and scale existing opioid treatment programs.

In FY2021, DOH identified three important action items that must be achieved in order to combat the crisis: 1) Developing a collaborative action plan to acquire and distribute overdose reversal medications as an opioid treatment initiative; 2) Evaluating existing opioid treatment programs to improve support and investment in community health events; and 3) Developing the technological infrastructure / capacity for the collection and sharing of opioid-related data to support informed decision-making.

DOH and ASSMCA are jointly undertaking efforts to support the implementation of improvements and expansion of Puerto Rico's Prescription Drug Monitoring System (PDMP). ASSMCA administers the PDMP in Puerto Rico and is responsible for the improvements to be made to the system. To this end, DOH established a collaboration agreement (MOU) with ASSMCA to develop a joint work plan. DOH and ASSMCA agreed to invest in improvements to the PDMP and the contract for such vendor is currently waiting for approval at Puerto Rico